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" Royal Commission on, 1937

ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

^{Hearings}
REPORT OF PROCEEDINGS

[Manitoba]

Vol. 1, Pt. 1-3

NOV. 29, 1937 - Dec. 1, 1937

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WINNIPEG, MANITOBA, NOVEMBER 29, 1937

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

WINNIPEG, MANITOBA, NOVEMBER 29, 1937

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Law Courts, Winnipeg, Manitoba, on Monday, November 29, 1937, at 10.30 a.m.

PRESENT:

HON. NEWTON W. ROWELLCHAIRMAN

DR. JOSEPH SIROIS)	
JOHN W. DAFOE, Esq.)	
DR. ROBERT ALEXANDER MacKAY	)	Commissioners
PROFESSOR HENRY FORBES ANGUS)	

Commission Counsel:

Louis S. St. Laurent, Esq., K.C.

Secretariat:

Alex. Skelton, Esq.	Secretary
R. M. Fowler, Esq.	Legal Secretary
Wilfrid Eggleston, Esq.	Assistant to the Secretary
Adjutor Savard, Esq.	Secretaire Francais

FOR THE MANITOBA GOVERNMENT:

Honourable John Bracken,	Premier
Honourable William J. Major,	Attorney General
Honourable Stuart Garson,	Provincial Treasurer
John Allen, K.C.,	Deputy Attorney General
Isaac Pitblado, K.C.,	Counsel

FOR THE PROVINCE OF BRITISH COLUMBIA:

Senator J. W. Farris, K.C., Counsel

FOR THE PROVINCE OF ONTARIO:

D. W. Lang, K.C. Counsel

FOR THE PROVINCE OF SASKATCHEWAN:

Honourable T. C. Davis, K.C. Attorney General

OPENING REMARKS BY THE CHAIRMAN

THE CHAIRMAN: At this first public sitting of the Commission, it would appear expedient that a brief statement should be made of the reasons for its appointment and of the character and scope of the task it is required to undertake. But before doing so, may I say how deeply my colleagues and I regret that the Honourable Mr. Justice Rinfret was compelled because of illness to resign from the Commission. He sat with us in our earlier executive sessions and we had the benefit of his advice and assistance in organizing the work of the Commission and in selecting the principal members of the staff. His high character and his distinguished record as a jurist commanded the confidence of all the people of Canada. His retirement is a great loss to the Commission: we earnestly hope that with a much needed rest he will soon be fully restored to health and able to resume his duties as a Justice of the Supreme Court of Canada.

If my colleague, Mr. Sirois, will permit me, I should like to say that I believe the Government has been fortunate in securing his consent to serve as a member of this Commission. Mr. Sirois is an outstanding leader of the notarial profession in the Province of Quebec. For many years he has been a professor of constitutional law, and he has had a large practical experience in the conduct of business and financial affairs. I am sure he will prove a most worthy successor to Mr. Justice Rinfret.

It appears fitting that we should open the public sittings of this Commission in the City of Winnipeg - the centre of Canada - and it is a happy coincidence that this province is directly linked with the Fathers of Confederation through its honoured Lieutenant-Governor, the Honourable W. J. Tupper, a son of one of the most distinguished Fathers of Confederation, the late Sir Charles Tupper.

We approach our difficult task with wholehearted admiration for the great achievement of the Fathers of Confederation. Their faith in the destiny of the then North American Colonies; their courage and patience in overcoming every difficulty; their tolerance and regard for the views, the rights and interests that each represented enabled them to secure unanimity and to found the Canadian nation. In the same spirit the people of Canada can solve all their present difficult problems.

The reasons for the appointment of the Commission are set forth in detail in the order in council appointing the Commission, and may be thus summarized:

Due to social and economic changes there has been a great extension in the functions of government since 1867, an extension not foreseen at the time of Confederation. This extension "involves expenditures of such a magnitude as to demand not only the most efficient administrative organization on the part of all governments, but also the wisest possible division of powers and functions between governments." In addition governmental expenditures are increased by overlapping and duplication of services as between the Dominion and the provincial governments in certain fields of activity.

The maintenance of these new public services has involved such expenditures that several provincial governments made representations to the Government of Canada that the present revenue sources available to them were inadequate to enable them to discharge their constitutional responsibilities, and that either new sources of revenue must be allotted to them, or their constitutional responsibilities and governmental burdens must be lessened. It was further represented that municipal governments faced similar problems, and that municipal expenditures had placed such a heavy burden on real estate that it was retarding economic recovery.

Finally, it was represented that unless appropriate action was taken the set-up of governmental powers devised at Confederation would not be adequate to meet the social and economic changes and the shifts in economic power which were in progress without subjecting Canada's governmental structure to undue stress and strain.

The Commission has been appointed to make inquiry into all the facts and circumstances thus set out; to that end it seeks to invite and secure the cooperation of governments and organizations of Canadian citizens which are interested in its general purpose. The Commission is required:

1. "To re-examine the economic and financial basis of Confederation, and the distribution of legislative powers in the light of the economic and social developments of the last seventy years.
2. To investigate the character and amount of taxes collected from the people of Canada, and to determine whether taxation as at present allocated and imposed is as equitable and as efficient as can be devised. This affects every citizen of Canada.
3. To examine public expenditures and public debts in general in order to determine the ability of the Dominion and Provincial governments to discharge their constitutional responsibilities within the frame-work of the present allocation of powers, or on the basis of some form of re-allocation thereof. The question of public debts, which is thus remitted to the Commission for inquiry, is one of the most serious facing the people of Canada to-day. It is difficult to exaggerate its urgency and importance.
4. To investigate the whole question of Dominion subsidies and grants to Provincial governments. This necessarily involves the question of whether a system of subsidies and grants to Provincial govern-

ments is the best method of enabling Provincial governments to discharge their responsibilities, or whether there are more effective alternatives.

5. Following these inquiries the Commission is instructed "To consider and report upon the facts disclosed by their investigations; and to express what, in their opinion, subject to the retention of the distribution of legislative powers essential to a proper carrying out of the federal system in harmony with national needs and the promotion of national unity, will best effect a balanced relationship between the financial powers and the obligations and functions of each governing body, and conduce to a more efficient, independent and economical discharge of governmental responsibilities in Canada."

The magnitude of the task which the Commission, at the request of the Dominion government has undertaken, and the weight of responsibility which rests upon it, are made evident by this summarized statement. There must be an examination of all the relevant facts; and if it should appear to us that the social and economic changes of the past seventy years require changes in the distribution of the burdens of government and of legislative powers as between the Dominion and the provinces, it will be our duty to say so and to indicate in a general way the changes that, in our opinion, are necessary.

When the Commission has made its report it will have completed its task. The power of dealing with the report and therefore the responsibility, will rest upon the Dominion government and upon those other governmental bodies whose cooperation may be necessary to make required changes effective.

The Commission in beginning its labours is encouraged by evidences of widespread public interest and sympathy. I am glad to say that the Commission has been promised the cordial cooperation of Dominion and Provincial Governments, and of important national organizations interested in the problems with which the Commission is called upon to deal. We are anxious to receive all the help possible; and we invite the cooperation of all who can make contributions of substance to the inquiry.

As for the Commissioners, they have undertaken the responsibilities and have entered upon their duties with the sole desire of rendering a service to the people of Canada.

ADDRESS OF WELCOME

HON. JOHN BRACKEN (Premier of Manitoba): Mr. Chairman and Members of the Commission, I am sure we have all listened with very great interest to the Chairman's remarks and I wish on behalf of the Government of Manitoba and other bodies appearing before the Commission to thank him for the brief and very clear statement of the reasons for the appointment of the Commission and of its purposes.

On behalf of the people of Manitoba I wish also to extend a very cordial welcome to the Members of the Commission to the Province of Manitoba and the City of Winnipeg for their first session. I think I may say for all our people that we were pleased when the Government of Canada decided to appoint this Commission. We were doubly pleased when the personnel of the Commission was announced, and now that we have met you all and have heard the Chairman's opening remarks we are even more hopeful than before that great good will come to Canada as a result of your labours.

With the Chairman we all regret that illness has pre-

-vented Mr. Justice Rinfret from taking his place on the Commission; but we are happy that one of the most distinguished notaries of the province of Quebec, in the person of Dr. Joseph Sirois, has been appointed to take his place.

There are several interesting coincidences in connection with this opening session which I desire to take a moment of the Commission's time to mention. The Chairman has already mentioned one of them.

We are meeting here this morning to consider a Confederation problem, and we are meeting in a part of the world which was not in Confederation seventy years ago. We are meeting in a province which was not even a province seventy years ago but in a province which is honoured in having as its Lieutenant Governor an honoured son of one of the honoured Fathers of Confederation.

We are meeting here at one of the most historic spots in Central Canada, and at one of the places in Canada which has never flown anything but the British flag. We are meeting within a few yards of the place where the first white man looked out over nearly one thousand miles of prairie some two hundred years ago. We are meeting within a short distance of several places around which all the history of the part of Canada has centred during the last two centuries.

In this historic spot in the centre of Canada we are meeting this morning to deal with a Confederation problem, and we are meeting under the chairmanship of one who was born in the very year that Confederation was born - one who has witnessed the whole of Canada's history and one who, fortunately we think, is one of Canada's outstanding authorities on constitutional questions. I am sure we all hope, Mr. Chairman, that when the history of this period comes to be written, he who was a child of the Confederation year, together with his associates on this Commission, will come to be known, not as the Fathers of Confederation, but

distinction denied to them by the accident of birth, but rather among the builders, if not the Fathers of the new Confederation that Canada seeks to build on the foundations so well laid seventy years ago.

Before proceeding further I wish to extend to the individual members of the Commission our sincere congratulations on their having been deemed worthy of appointment to this important task. There can hardly be found any greater opportunity to serve the Canadian nation than that which is yours to-day. It is an opportunity which carries with it what is probably the greatest challenge to Canadian statesmanship that has presented itself in this generation; a challenge that is not second in importance to that which faced the Fathers of Confederation over seventy years ago; one that carries with it a responsibility which Canadians are happy to believe has been placed upon capable shoulders. Speaking for the citizens of Manitoba, I may say that we look upon the members of this Commission as men especially well equipped by training, by temperament and by experience to carry out this great task in a manner befitting its importance and worthy of the best traditions of the British system of government.

Among the chief purposes of the Commission, it seems to us, is that of helping to bring about not only a more united Canada but also a Canada in which all its people will have the consciousness, that in so far as the division of responsibilities under their governmental set-up is concerned, it is as equitable, as efficient and as just as it is possible for human minds to effect.

If, as a result of your work, such a revision of Dominion-Provincial relations can be made, or such a readjustment of Dominion-Provincial responsibilities effected as will accomplish this purpose, a long step forward will have been taken in strengthening the spirit of Canadian

unity and in binding more closely together the different economic areas within the nation. If, following your report and subsequent action by the Dominion Government, all substantial causes of friction are removed, a still further advance will have been made in the direction of establishing confidence on the part of all Canadians, wherever they may be domiciled, that this country means to assure to them in their instruments of government a means by which they may hope to achieve the greatest possible measure of political and social justice for all areas and all individuals.

It is unnecessary here to recount the conditions leading up to the appointment of this Commission. It will be sufficient for our purpose at this time to point out, that from the earliest years of Confederation, there has arisen in province after province protests of iniquity and claims for adjustment, large numbers of which have been found on examination to be just complaints and many of which have been partially, or wholly, adjusted. The fact that the British North America Act has been amended several times in seventy years and the financial terms adjusted on many occasions is ample evidence that neither the division of responsibilities, as determined seventy years ago and interpreted since, nor all details of the wording of that Act should be considered satisfactory for all time to come. If further evidence of this were needed, it is to be found in the preamble of the terms of reference in which the instructions to this Commission are set out. From the preamble it is obvious that there has developed a general recognition of the necessity, in the national interest, of a re-examination of Dominion-Provincial relations.

The federal cabinet, in the light of these representations, has recommended that certain things be done, and these recommendations form the basis of your instructions.

These instructions are not narrow. As we read them, they leave open to you for investigation, with no restrictions whatever, the whole field of Dominion-Provincial relationships in Canada, not excluding the problems of the municipalities and school districts, which are part of the machinery of the provincial governments.

You have paid the province of Manitoba the compliment of asking to hear our representations first. In what we shall have to say we shall speak as Canadians, not as sectionalists. What we shall say we shall say as Canadian citizens who happen to live in this part of Canada. What we shall say will be said because it needs saying in the interests of Canada as well as of Manitoba. We shall try not to over-state nor yet to under-state the facts as they exist. We shall make our presentation not as mendicants seeking favours, but as Canadian citizens seeking equity. We shall necessarily speak frankly concerning certain federal policies which in the west are working against the best interests of Canada as a whole. We shall ask that certain burdens and disabilities which now bear inequitably upon Canadians in this part of Canada be either removed or adjusted. In doing so we shall expect no more than even-handed justice. We shall ask for no more and as long as we have confidence in the nation's sense of justice we shall expect no less.

In presenting our case we shall feel that we are not less Canadian in spirit or in reality if we show that the economic picture which Canada, not intentionally but nevertheless actually, has permitted to be drawn across this section of the Dominion is not just to those Canadians who happen to live here and is not in the interests of Canada as a whole.

As to the specific proposals we shall present for your

consideration, we ask only that they be accepted if they stand the test of the most critical analysis. If on examination they meet with substantial approval on your part, we trust they will be found acceptable by the Parliament of Canada and that they will be implemented by the necessary parliamentary action.

Method of Presentation.

Since you are here to consider the problems arising out of Dominion-Provincial Constitutional relations it is first necessary to state what these relations are and what they have been interpreted to be. The next part of our presentation will therefore be a statement setting out "The Constitutional Relations of the Dominion and the Provinces," as we see those relations in the light of the Constitution itself, and the judicial interpretations of the Constitution and the practices which now obtain under it. In this presentation, among other things, it will be shown that certain wide responsibilities and powers were given to the Central Government at the time of Confederation.

In the third and fourth parts we shall show that some of those powers have been exercised in a way that has been to the great disadvantage of this part of Canada. Specifically we refer to the effects of federal, monetary policy and federal tariff policy upon the prosperity of Manitoba and the West.

From effects presented in these last mentioned parts of our submission, and from other facts, it will be apparent that the major problem facing Manitoba people and western people generally is that of reduced incomes. We shall, therefore, in the fifth Part of our case present a detailed analysis of "The Effects of Declining Income."

This will be followed by a statement of "The Financial Problems of Municipalities and School Districts" and this by an "Analysis of Manitoba's Treasury Problem."

We shall then present a summary of our case together with certain general and specific recommendations. It will be succeeded by such amplification of our proposals as we trust will make clear to the Commission the import and effect of these suggested remedies.

It is our desire, Mr. Chairman, to present these Parts in the order in which I have stated them, if that is agreeable to the Commission. The Hon. Mr. Major, Attorney General is prepared to speak on Part 2, The Constitutional Relations of the Dominion and the Provinces immediately. Dr. Upgren will be prepared to deal with Part 3, The Effects of Federal Monetary Policy on Western Canadian Economy, and to-morrow we hope to be able to get through the next three Parts, numbers 4, 5, and 6. Part 4, dealing with the Effects of Federal Tariff Policy on Western Canadian Economy will be presented by Dr. Grant. Immediately following that Part 5, dealing with the Effects of Declining Income will be presented by Dr. Upgren; and in the afternoon the Municipal Commissioner, the Hon. Mr. Major, will deal with the Financial Problems of Municipalities and School Districts. On Wednesday we propose to have the provincial treasurer the Hon. Mr. Garson, present an Analysis of Manitoba's Treasury Problem, and on Thursday I shall attempt to summarize our case and make certain proposals for your consideration. That will leave Friday and Saturday and three days of next week for some fourteen other organizations which desire to be heard.

I have just one suggestion to make in this connection and that is, that the Secretary of the Commission arrange a definite order for these organizations to be heard, and to have the precise time announced when they can be heard. That would be very much appreciated by those who have to make representations.

I might add that we have learned that one body, which will be represented by Mr. Sanford Evans, desires to be heard before our case is fully completed. If that is their desire, it is quite satisfactory to us for that organization to be heard at any time during the next three or four days.

Before proceeding with our submission, I wish to express to the individual members of the Commission, and particularly to the Chairman and Secretary, our appreciation of the consideration they have shown us in making their plans for these hearings, and for the cooperation which they have given us in matters connected with the preparation of our brief. Needless to say, we shall rest our case wholly on such grounds of economic and social justice as we trust will appeal to all sections of Canada and not to Western Canada alone. In any case, we feel that the recommendations of this Commission, whether favourable to all our proposals or otherwise, will be the best decisions that unbiased and wellqualified judgment can produce.

If there are no further preliminaries, Mr. Chairman, I would like to introduce the Attorney General, The Hon. Mr. Major, who will present that part of our submission dealing with the Constitutional Relations of the Dominion and the Provinces.

THE CHAIRMAN: The method of procedure that you have outlined, Mr. Premier, is entirely satisfactory to the Commission, and we shall be glad if Mr. Major will proceed.

Constitutional Relations
of the Dominion and the Provinces

HON. W. J. Major (Attorney General for Manitoba):
Mr. Chairman and Members of the Commission, I wish formally to file Part 2, the Constitutional Relations of the Dominion and the Provinces. Associated with me in the preparation of this section of our brief is Mr. Isaac Pitblado, K. C.,

and Mr. John Allen, K.C., Deputy Attorney General. I do not propose to read this brief as I think it is the desire of the Commission that it be summarized, so that there will be no time lost and every opportunity be given to those who desire to make other representations.

In presenting the brief on the Constitutional Relations of the Dominion and the Provinces we hope to show the change which has taken place in the conception of the extent of the powers and responsibilities of the province under the constitution of Canada as interpreted by the courts, without any corresponding change in the allocation of the revenues necessary to discharge such responsibilities or in the power to raise such revenues.

(Page 21 follows)

It seems advisable to discuss the matter under two headings; First, the interpretation placed upon the constitution, chiefly as it relates to the distribution of legislative powers between the Dominion and the provinces, and secondly, the amendment of the constitution. We hope that we shall be able to present cogent testimony to the fact that the constitution of Canada as it stands today, after seventy years of interpretation, does not enable the various jurisdictions in Canada to solve effectively the many pressing national problems now confronting the people of Canada. I am referring to page 2. In the succeeding three paragraphs under the heading, "Origin and Development of the British North America Act, 1867" we have traced the origin and development of the British North America Act from 1867 down to the present time.

We have referred to the pre-Confederation conferences of Quebec and London and the resolutions which were intended to serve as a basis for the proposed confederation of the provinces of British North America. In tracing this development we hope to be able to determine how far the interpretation placed by the courts upon the act harmonizes with the expressed intentions of those responsible for it. On page 3 we deal with the interpretation of the constitution, and under the third paragraph we submit that the intention of the delegates who met at Quebec in 1864, and who were the authors and founders of our constitution, taking into consideration the conditions that existed seventy years ago, may be found in the proceedings of the Charlottetown conference of 1864, the seventy-two resolutions adopted at the Quebec Conference of 1864, the sixty-nine resolutions adopted at the conference in London England in 1866, and the discussions

relative to the foregoing that took place in the various legislatures and conferences.

I should like to quote, first, the two resolutions of the Quebec Conference and of the London Conference, which are substantially the same. They are as follows:

"1. The best interests and present and future prosperity of British North America will be promoted by a Federal Union under the Crown of Great Britain, provided such union can be effected on principles just to the several provinces.

2. In the Federation of the British North American Provinces the system of government best adapted under existing circumstances to protect the diversified interest of the several provinces, and secure efficiency, harmony, and permanency in the working of the union, would be a general government charged with matters of common interest to the whole country, and local governments for each of the Canadas and for the provinces of Nova Scotia, New Brunswick, and Prince Edward Island, charged with the control of local matters in their respective sections, provision being made for the admission into the union on equitable terms of Newfoundland, the North-West Territory, British Columbia, and Vancouver."

We set out at length on Page 4 Resolution 29 of the Quebec Conference, which formed the basis of Section 91 of the Constitution, and on page 5 we set out Resolution 43 of the Quebec Conference, forming the basis of Section 92 of the Constitution. We submit that the intention of the Fathers of Confederation was to give to the Parliament of Canada jurisdiction relative to all the great subjects of legislation and all matters of national importance, of

common interest to the whole country, and to give the legislatures of the provinces jurisdiction relative to matters of local importance. This is declared explicitly by Resolution 2 of the Quebec Resolutions. The Fathers of Confederation who spoke on the matter of the distribution of legislative powers in the proposed federal union emphasized this matter of national importance and local importance, of general government and local government.

In support of our submissions we quote the language of some of the representatives of the provinces, the first being Sir John A. Macdonald. At the Quebec Conference on October 11, 1864, Sir John Macdonald, then the Honourable Attorney-General, made it clear that Canada should avoid the error which was made by the framers of the constitution of the United States. At the top of Page 6 he is quoted as follows:

"The various States of the adjoining Republic had always acted as separate sovereignties. The New England States, New York State and the Southern States had no sympathies in common. They were thirteen individual sovereignties, quite distinct the one from the other. The primary error at the formation of their constitution was that each state reserved to itself all sovereign rights, save the small portion delegated. We must reverse this process by strengthening the General Government and conferring on the Provincial bodies only such powers as may be required for local purposes. All sectional prejudices and interests can be legislated for by local legislatures.

It is to be noted that an attempt was made at the Quebec Conference to give the residuary power to the

provinces. The Honourable Mr. Mowat had introduced a motion respecting the powers of the local legislatures. It was moved by Honourable Mr. Coles, of Prince Edward Island, in amendment to the motion of the Honourable Mr. Mowat:

"That the local legislatures shall have power to make all laws not given by this conference to the general legislature expressly".

The question of conference being put on the amendment, the same was unanimously resolved in the negative. This seems to establish quite clearly that all the delegates at the Quebec Conference were agreed that the general legislature was not to be bound by a specific list of enumerated powers, but was to have the residue of legislative capacity over and above such enumerated powers.

We quote again the language of Sir John A. Macdonald, which was used in the debates on Confederation in 1865. In the first paragraph of the quotation there appears the following:

"In the proposed constitution all matters of general interest are to be dealt with by the general legislature; while the local legislatures will deal with matters of local interest, which do not affect the Confederation as a whole, but are of the greatest importance to their particular sections".

Next I go on to quote the third paragraph in which Sir John Macdonald deals with the United States:

"They (the United States) commenced, in fact at the wrong end. They declared by their constitution that each state was a sovereignty in itself, and that all the powers incident to a

Sovereignty belonged to each state, except those powers which, by the constitution, were conferred upon the general government and Congress. Here we have adopted a different system. We have strengthened the general government. We have given the general legislature all the great subjects of legislation. We have conferred on them, not only specifically and in detail, all the powers which are incident to sovereignty, but we have expressly declared that all subjects of general interest not distinctly and exclusively conferred upon the local governments and local legislatures, shall be conferred upon the general government and legislature. We have thus avoided that great source of weakness which has been the cause of the disruption of the United States. We have avoided all conflict of jurisdiction and authority, and if this constitution is carried out, as it will be in full detail in the Imperial Act to be passed if the colonies adopt the scheme, we will have in fact, as I said before, all the advantages of a legislative union under one administration, with, at the same time, the guarantees for local institutions and for local laws, which are insisted upon by so many in the provinces now, I hope, to be united."

At the top of Page 7 I quote as follows:

"...but any honorable member on examining the list of different subjects which are to be assigned to the General and Local Legislatures respectively, will see that all the great questions which affect the general interests of the Confederacy, as a whole are confided to the Federal Parliament, while the local interests and local laws of each section are preserved intact, and entrusted to the care of the local bodies...."

I quote now from the third paragraph:

"Besides all the powers that are specifically given the 37th and last item of this portion of the Constitution confers on the General Legislature the general Mass of sovereign legislation, the power to legislate on all matters of a general character, not specially and exclusively reserved for the local governments and legislatures." This is precisely the provision which is wanting in the Constitution of the United States. It is here that we find the weakness of the American system -- the point where the American Constitution breaks down. It is in itself a wise and necessary provision. We thereby strengthen the Central Parliament, and make the Confederation one people and one government, instead of five peoples and five governments, with merely a point of authority connecting us to a limited and insufficient extent. With respect to the local governments, it is provided that each shall be governed by a chief executive officer, who shall be nominated by the General Government. As this is to be one united province, with the local governments and legislatures subordinate to the General Government and Legislature, it is obvious that the chief executive officer in each of the provinces must be subordinate as well."

THE CHAIRMAN: Are you aware, Mr. Major - I am not aware myself - of any reason why, when they came to the actual framing of Section 91 and Section 92, they dropped out of Section 91 that last clause in

reference to general powers, unless it was assumed that that clause was fully covered by the introductory clause of Section 91?

HON. MR. MAJOR: No, my Lord; I have no reason to advance for the abandonment of that clause.

THE CHAIRMAN: I have not seen in any of my readings any explanation of this point and I have been wondering why the change was made.

HON. MR. MAJOR: Mr. Pitblado suggests that they probably thought they were giving effect to that particular provision in the general language.

THE CHAIRMAN: I have always assumed that that was the idea - that part of 91 covered that clause - but I have never seen any explanation, in any of the books or the records of the conferences, as to why it was done.

HON. MR. MAJOR: I should like to quote now the Hon. Mr. Galt, but perhaps I might first give the view expressed by Sir George Cartier:

"Under the Federation system, granting to the control of the General Government these large questions of general interest in which the differences of race or religion had no place, it could not be pretended that the rights of either race or religion could be invaded at all."

Then the Hon. Mr. Galt, later Sir A.T. Galt, made the following statement:

"....we may well doubt whether the aggregate charge will be greater for the General Government, caring for the general interests of the whole, and for the local governments, attending merely to the local business of each section, we may well doubt, I say, whether that expense will be greater, in any considerable degree, than that which is required for

our Government under the present system. On the one hand we shall be free from the empty parade of small Courts entailed by our present system on each of these provinces, keeping up a pretence of regal show when the reality is wanting; we shall have the legislation of the General Government restricted to those great questions which may properly occupy the attention of the first men in the country; we shall not have our time frittered away in considering the merits of petty local bills, and therefore, we may reasonably hope that the expenses of the General Legislature will be considerably less than even those of the Legislature of Canada at the present moment -- while, on the other hand, the local legislatures having to deal rather with municipal than great general questions, will be able to dispose of them in a manner more satisfactory to the people, and at infinitely less expense than now".

THE CHAIRMAN: The Fathers of Confederation were rather sanguine about the expense; they seemed to think that the new set up would be less costly than the other.

HON. MR. MAJOR: Unfortunately, it has worked out the other way. At the top of Page 8 I quote Honourable D'Arcy McGee: Mr. McGee said:

"The principle of Federation is a generous principle. It is a principle that gives men local duties to discharge, and invests them at the same time with general supervision, that excites a healthy sense of responsibility and comprehension".

Then the Honourable L.A. Olivier is quoted as follows:

"The powers of the Federal Government will be in reality unlimited. The fact of the enumeration of these thirty-seven heads does not in the least

restrain the power of the Federal Government from legislating on everything. The exceptions are few."

That, I suggest, is striking language. The last quotation is from Lord Carnarvon who, when introducing the British North America Act, 1867, in the Imperial Parliament, made the following statement:

"The real object which we have in view is to give to the central government those high functions and almost sovereign powers by which general principles and uniformity of legislation may be secured in those questions that are of common import to all the provinces; and at the same time to retain for each province so ample a measure of municipal liberty and self-government as will allow and indeed compel them to exercise those local powers which they can exercise with great advantage to the community....In closing my observations upon the distribution of powers, I ought to point out that, just as the authority of the central parliament will prevail whenever it may come into conflict with the local legislatures, so the residue of legislation, if any, unprovided for in the specific classification which I have explained, will belong to the central body. It will be seen, under the ninety-first clause, that the classification is not intended to 'restrict the generality' of the powers previously given to the central parliament, and that those powers extend to all laws made 'for the peace, order, and good government' of the confederation - terms which, according to all precedent, will, I understand, carry with them an ample measure of legislative authority."

These are the words used by Lord Carnarvon when he

introduced the measure that brought into being the constitution of the Dominion of Canada. I submit that the language used throughout the discussions and in the Quebec and London Resolutions would seem to afford abundant confirmation of the principle that all matters of national importance "of common import to all the provinces", pertaining to the general interest of the whole were the responsibility of the Parliament of Canada, while all matters of merely local importance in each province were to be under provincial control.

On Page 9, in considering Section 91 and Section 92 of the British North America Act, we have set out in full Section 91, and on page 10 we have also given Section 92.

It will be noted that Section 91 provides inter alia:

"1. That the enumeration of twenty-nine classes of Dominion powers was not to be in restriction of the general power to make laws for the peace, order, and good government of Canada.

2. That notwithstanding anything in this Act the exclusive legislative authority of the Parliament of Canada extends to the twenty-nine classes."

It will be seen that while Section 92 contains an exhaustive list of the powers of the provincial legislatures, Section 91 does not contain such a list. There are other provisions in the British North America Act, 1867, that illustrate the predominance of general over local matters and show that the Fathers of Confederation did not have a narrow conception of the powers to be enjoyed by the General Parliament. The Dominion was given certain powers of disallowance within one year of the enactment of the measure. The Dominion was given the power to control provincial works and undertakings by declaring them to

be for the general advantage of Canada. There is a slight error here; instead (b) under subsection 10 of Section 92 it should be (c).

Under Section 132 the Dominion was empowered to give effect to the obligations of Canada or of any of the provinces as part of the British Empire towards foreign countries arising under treaties between the Empire and such foreign countries. At the foot of page 11 we ask this question:

"What is the present situation relative to the distribution of legislative powers? These are questions of vital and immediate importance. It is difficult to be accurate and brief at the same time, because the Judicial Committee in a case in 1931 said....."

Cases have come before the Judicial Committee in which certain leading principles of interpretation have been enunciated. These we treat under four divisions: The Provinces as Independent and Autonomous; Matters of National Importance; Regulation of Trade and Commerce; Taxation.

One of the most important principles of interpretation placed upon the constitution by the Judicial Committee is that the provinces are in no sense subordinate to the Dominion. They are independent and autonomous. I quote from Sir Barnes Peacock in *Hodge v. the Queen* (1883) 9 Appeal Cases, 117 at p. 132. In the fourth line of the quotation there appears the following:

"When the British North America Act enacted that there should be a legislature for Ontario, and that its legislative assembly should have exclusive authority to make laws for the Province and for provincial purposes in relation to the matters enumerated in Section 92, it conferred powers not in

any sense to be exercised by delegation from or as agents of the Imperial Parliament, but authority as plenary and as ample within the limits prescribed by Section 92 as the Imperial Parliament in the plenitude of its power possessed and could bestow. Within these limits of subjects and area the local legislature is supreme."

On Page 13 I quote Lord Watson in the case of the Maritime Bank of Canada v. the Receiver-General of New Brunswick, 1892 Appeal Cases, 437 at pp. 441-442:

"Their Lordships do not think it necessary to examine, in minute detail, the provisions of the Act of 1867, which nowhere profess to curtail in any respect the rights and privileges of the Crown, or to disturb the relations then subsisting between the Sovereign and the provinces. The object of the Act was neither to weld the provinces into one, nor to subordinate provincial governments to a central authority, but to create a federal government in which they should all be represented, entrusted with the exclusive administration of affairs in which they had a common interest, each province retaining its independence and autonomy."

This expression can be contrasted with the passage of Honourable Attorney-General Macdonald, as he was then, in the confederation debates of 1865:

"We make the Confederation one people and one government instead of five peoples and five governments - one united province with the local governments and legislatures

subordinate to the General Government and Legislature."

THE CHAIRMAN: In the case of the Bank of Toronto v Lambe (1887), 12 Appeal Cases 575, there is an important statement with respect to the relation of the Dominion to the provinces. It has not been much commented upon but it should be read in connection with the statement of Lord Watson. It is as follows:

"Their Lordships have to construe the express words of an Act of Parliament which makes an elaborate distribution of the whole field of legislative authority between two legislative bodies, and at the same time provides for the federated provinces a carefully balanced constitution, under which no one of the parts can pass laws for itself except under the control of the whole acting through the Governor-General."

That must be a reference to the power of disallowance, but it is put in rather striking form in that particular passage.

HON. MR. MAJOR: On Page 13, under "Matters of National Importance", we discuss the famous case of Russell v the Queen, which occurred at a time when the memories of the chaos and weaknesses that had preceded Confederation were strong, and the decisions of the courts may be said to have favoured what may be called a national interpretation of our constitution. I quote the concluding paragraph in the judgment in the Russell case, which is as follows:

"Their Lordships having come to the conclusion that the Act in question does not fall within any of the classes of subjects

assigned exclusively to the Provincial Legislatures, it becomes unnecessary to discuss the further question whether its provisions also fall within any of the classes of subjects enumerated in sect. 91. In abstaining from this discussion, they must not be understood as intimating any dissent from the opinion of the Chief Justice of the Supreme Court of Canada and the other Judges, who held that the Act, as a general regulation of the traffic in intoxicating liquors throughout the Dominion, fell within the class of subject, "the regulation of trade and commerce," enumerated in that section, and was, on that ground, a valid exercise of the legislative power of the Parliament of Canada."

That is to say, they did not disagree with the Chief Justice, that it fell under the subhead governing the regulation of trade and commerce, but they were of the opinion that it did not fall within the class of subjects assigned specifically to the provinces. Obviously the Russell case supported the jurisdiction of the Parliament of Canada and those who desired to argue in favour of the jurisdiction of Canada relied upon that judgment wherever possible.

On Page 14 we make this submission. It would appear that the Judicial Committee at an early date indicated that they would not follow the judgment which had been delivered in the Russell case. During the argument of the case of the Great West Saddlery Co. v the King, 1921-2 Appeal Cases 91, Viscount Haldane, who presided, referring to his experience before the

Judicial Committee in the early days, said: "I think I may say - I had a long experience at the Bar in these cases in those days - that it was a tacit rule, a convention between judges and counsel that Russell v. the Queen was not to be cited, and we did not cite Russell v. the Queen.

I quote other portions of that judgment at length. I do not propose to read them, but as a matter of fact I could say that the Russell Judgment will remain, notwithstanding the words of Viscount Haldane. In our submission we say, "Its spectre would not down". It continually troubled the courts and it had to be explained somehow. The quotation which I give is from the case of Toronto Electric Commissioners v. Snider, 1925 Appeal Cases 396.

Now I turn to Page 15. In about the middle of the page the following quotation is given:

"Their Lordships think that the decision in Russell v. The Queen can only be supported today, not on the footing of having laid down an interpretation, such as has sometimes been invoked of the general words at the beginning of s. 91, but on the assumption of the Board, apparently made at the time of deciding the case of Russell v. the Queen, that the evil of intemperance at that time amounted in Canada to one so great and so general that at least for the period it was a menace to the national life of Canada so serious and pressing that the National Parliament was called on to intervene to protect the nation from disaster. An epidemic of pestilence might conceivably have been regarded as analogous."

That is the manner in which the Privy Council disposed of the Russell Case, and I take it that, for

the time being at any rate, we have followed it to its last constitutional resting place.

THE CHAIRMAN: Recently there has been a partial resurrection of the judgment in *Russell v. the Queen*. I do not think it helps your argument, but there was an appeal from the courts of Northern Ireland, and the principal authority cited in the judgment was *Russell v. the Queen*. The point was that in interpreting an act one should consider the pith and substance rather than the form of it. In that case some milk dealers on the Free State side of the border had been selling milk in Northern Ireland. The North of Ireland legislature had passed an act requiring everyone selling milk to take out a licence. The licence was refused these dairymen and they brought an action to have the act, requiring the licence, declared ultra vires on the ground that it contravened the constitution of Northern Ireland, which prohibited the legislature of Northern Ireland from enacting legislation preventing trade between Northern Ireland and outside areas. The Privy Council held that in pith and substance the act related not to trade but to the preservation of the public health. In that case *Russell v. the Queen* is cited in support of the decision, so that apparently that judgment is not so bad and may be referred to for some purposes at least.

HON. MR. MAJOR: Quite so, my Lord; but insofar as the interpretation of the Canadian constitution is concerned, that judgment is buried so deep that there is not much chance of its being resurrected.

The hope created immediately after and by the judgment in the *Russell* case did not long survive; in a series of well-known decisions, legislation enacted by the parliament of Canada was held invalid when it was found

not to be within one of the specific heads of section 91 and when it did fall within one of the specific heads of section 92.

In the pages that follow, from page 16 to page 27, we discuss some thirteen subject matters in which it is endeavoured to support legislation enacted by the Parliament of Canada as coming within peace, order and good government under section 91. The matters which we submit are all important and in all these cases they have been declared to be ultra vires of the Federal Parliament. The first subject dealt with is the liquor traffic.

In the case of the Attorney-General for Ontario v. The Attorney-General for the Dominion, the judgment of the Judicial Committee was directed to the answers to be given to certain questions submitted by the Governor-in-Council to the Supreme Court of Canada, all of which questions immediately concerned the jurisdiction of a provincial legislature in respect of the prohibition of certain phases of the liquor traffic. In the course of the discussion their Lordships of the Judicial Committee dealt with the general authority given to the Parliament of Canada under the peace, order and good government clause of Section 91, and their Lordships observed:

"....to those matters which are not specified among the enumerated subjects of legislation, the exception from s. 92, which is enacted by the concluding words of s. 91, has no application and, in legislating with regard to such matters, the Dominion Parliament has no authority to encroach upon any class of subjects which is exclusively assigned to provincial legislatures by s. 92. These enactments appear to their Lordships to indicate that the exercise of legislative power by

the Parliament of Canada, in regard to all matters not enumerated in s. 91, ought to be strictly confined to such matters as are unquestionably of Canadian interest and importance, and ought not to trench upon provincial legislation with respect to any of the classes of subjects enumerated in s. 92. To attach any other construction to the general power which, in supplement of its enumerated powers, is conferred upon the Parliament of Canada by s. 91, would, in their Lordships' opinion, not only be contrary to the intendment of the Act, but would practically destroy the autonomy of the provinces. If it were once conceded that the Parliament of Canada has authority to make laws applicable to the whole Dominion, in relation to matters which in each province are substantially of local or private interest, upon the assumption that these matters also concern the peace, order and good government of the Dominion, there is hardly a subject enumerated in s. 92 upon which it might not legislate, to the exclusion of the provincial legislatures."

Next, I quote two sentences of their Lordships;

"Their Lordships do not doubt that some matters, in their origin local and provincial, might attain such dimensions as to affect the body politic of the Dominion, and to justify the Canadian Parliament in passing laws for their regulation or abolition in the interest of the Dominion. But great caution must be observed in distinguishing between that which is local and provincial, and therefore within the jurisdiction of the provincial legislatures, and that which has

ceased to be merely local or provincial, and has become matter of national concern, in such sense as to bring it within the jurisdiction of the Parliament of Canada."

Under (2) on Page 18 we deal with the question of through traffic on provincial railways, and in that case we cite the *City of Montreal v. the Montreal Street Railway*. There it was held that it was incompetent for the Parliament of Canada to legislate with respect to through traffic over a provincial railway.

Under (3) I deal with insurance. The matter of the control of the business of insurance is of far reaching significance by reason of the enormous growth of the various classes of insurance and the many persons and businesses affected thereby. It may be said with substantial accuracy that the business of insurance in its various aspects interests every citizen of Canada, as well as every business concern. Hence, one does not need to quote figures in order to establish that the business of insurance has grown from a local matter to one of very great national importance. At the Quebec Conference the Fathers of Confederation considered the matter of insurance, and it was proposed to give to the general legislature the power to pass laws "for the regulation and incorporation of fire and life insurance companies"; but this proposal was dropped. As a result, the subject of insurance is not specifically mentioned in the British North America Act, 1867. For some fifty years the courts have been called upon to decide whether the Parliament of Canada or the legislatures of the provinces have jurisdiction to pass legislation for the control of the business of insurance.

One ground which the Dominion authorities have urged to establish the jurisdiction of the Parliament of Canada in matters of insurance has been that the business of insurance is a matter of national importance. And who will deny it? This, however, was brushed aside by Viscount Haldane, who delivered the judgment of the Privy Council in the case of the Attorney-General for Canada v. the Attorney-General for Alberta (1916), 1 Appeal Cases, 588. Viscount Haldane made the following statement:

"No doubt the business of insurance is a very important one, which has attained to great dimensions in Canada. But this is equally true of other highly important and extensive forms of business in Canada which are today freely transacted under provincial authority. Where the British North America Act has taken such forms of business out of provincial jurisdiction, as in the case of banking, it has done so by express words which would have been unnecessary had the argument for the Dominion Government addressed to the Board from the Bar been well founded."

From a business standpoint it would appear most advisable to have one central authority with exclusive jurisdiction in relation to insurance. At present, as a result of the provinces of Canada having jurisdiction over the business of insurance, we have in Canada nine provincial departments of insurance. In addition, the Dominion Department of Insurance also functions in exercising the limited jurisdiction which it has or believes it has. In all, there are ten jurisdictions in insurance matters in Canada.

Under (4) I deal with the evils of profiteering in dealings in the necessaries of life; and the regulating of prices of the necessaries of life. In the case of the Board of Commerce Act of 1919 and the Combines and Fair Prices Act of 1919 the Judicial Committee held that legislation with respect to such matters was not within the jurisdiction of the Parliament of Canada. Those cases were reviewed by Chief Justice Duff in the hours of labour case in 1936, and at page 20 I quote his Lordship at length:

"In this Board of Commerce case the Judicial Committee had to consider legislation by which a Dominion Board was constituted and empowered, broadly speaking, to inquire into, and prohibit, profiteering and practices in connection therewith in dealings in the necessaries of life. In particular, the Board had authority to regulate the prices of such necessaries of life.

The question arose upon a case stated as to the validity of an order made by the Board regulating the prices of ready made clothing in certain establishments in Ottawa. The validity of the order was attacked by the associations of manufacturers concerned and was supported by counsel on behalf of the Board and of the Dominion. The litigation raised the concrete question inter partes as to the legality of the particular order; and the answer to that question turned upon the answer to the question concerning the validity of the legislation, which it was, therefore, essential to determine. The statute was supported on various grounds and, among others, on the ground that in the year 1919, when

it was enacted, the evils of hoarding and high prices in respect of the necessities of life had attained such dimensions "as to affect the body politic of Canada." Nobody denied the existence of the evil. Nobody denied that it was general throughout Canada. Nobody denied the importance of suppressing it. Nobody denied that it prejudiced and seriously prejudiced the well being of the people of Canada as a whole, or that in a loose, popular sense of the words it "affected the body politic of Canada." Nevertheless, it was held that these facts did not constitute a sufficient basis for the exercise of jurisdiction by the Dominion Parliament under the introductory clause in the manner attempted. The Board said that in special circumstances, such as those of a great war, the interest of the Dominion in the matters might conceivably become of such paramount and over-riding importance as to lie outside the heads of section 92 and not be covered by them. But it is, they held, quite another matter to say that under normal circumstances, general Canadian policy can justify interference, on the scale of the statutes then in controversy, with the property and civil rights of the inhabitants of the provinces.

It has already been observed that circumstances are conceivable, such as those of war or famine, when the peace, order and good government of the Dominion might be imperilled under conditions so exceptional that they require legislation of a character in reality beyond anything provided for by the enumerated heads in either s. 92 or s. 91

itself. Such a case, if it were to arise, would have to be considered closely before the conclusion would properly be reached that it was one which could not be treated as falling under any of the heads enumerated. Still, it is a conceivable case, and although great caution is required in referring to it, even in general terms, it ought not, in the view their Lordships take of the British North America Act, read as a whole, to be excluded from what is possible. For throughout the provisions of that Act there is apparent the recognition that subjects which would normally belong exclusively to a specifically assigned class of subject may, under different circumstances and in another aspect, assume a further significance. Such an aspect may conceivably become of paramount importance, and of dimensions that give rise to other aspects. This is a principle which, although recognized in earlier decisions, such as that of *Russell v the Queen* (1881), 7 A.C. 829, both here and in the Courts of Canada, has always been applied with reluctance, and its recognition as relevant can be justified only after scrutiny sufficient to render it clear that the circumstances are abnormal. In the case before them, however important it may seem to the Parliament of Canada that some such policy as that adopted in the two Acts in question should be made general throughout Canada, their Lordships do not find any evidence that the standard of necessity referred to has been reached, or that the attainment of the end sought is practicable, in view of the distribution of legislative powers enacted by the Constitution

Act, without the co-operation of the Provincial Legislatures."

Under (5) I deal with industrial disputes. It is unnecessary to discuss the manner in which the act has been brought into operation, and then it is in operation only in regard to certain specific trades. The provinces have had to legislate on other trades that lie within their own competence.

Under (6) I discuss unemployment insurance. It is not necessary to say that the existence of unemployment on its present scale has taxed severely the resources of the country. This is a fact of general public interest which affects the whole body politic of Canada rather than that of any particular province. It can be said with reason that unemployment is, and especially since the Great War has been a national evil - a matter which has become a national one in every sense. It has been urged that unemployment to the extent to which it exists today is one of the aftermaths of the great war. In 1935 the Employment and Social Insurance Act was passed. It was an attempt to cope with one of the problems that had presented itself to the Canadian people and had reached such nation-wide importance as to need a national remedy. The legislation was referred to the courts and the Privy Council held that the act was ultra vires of the Dominion Parliament. In pith and substance the act was held to be an insurance act affecting the civil rights of employers and employed in each province and was accordingly within the exclusive competence of the provincial legislatures under Section 92, head 13 of the British North America Act, 1867, which provided that "in each province the legislature may exclusively make laws in relation to...(13) Property and civil rights in

the Province."

Can anyone visualize a satisfactory scheme of unemployment insurance which would be only provincial in its scope? We can say that the attempt of the Dominion authorities to cope with the evil of unemployment, an important national matter, failed because our constitution as interpreted by our highest tribunal, guided by the cases already decided, could not adapt itself to the new requirements.

Under (7) I deal with weekly rest, minimum wages and hours of labour. The Judicial Committee, in its judgment in these matters, first dealt with the contention that three statutes in question were valid because they were passed in accordance with the Conventions adopted by the International Labour Organization of the League of Nations. This contention was rejected and the Committee held that the Dominion "by making promises to foreign countries could not clothe itself with legislative authority inconsistent with the constitution which gave it birth." They held:

"But the validity of the legislation under the general words of s. 91 was sought to be established not in relation to the treaty-making power alone, but also as being concerned with matters of such general importance as to have attained "such dimensions as to affect the body politic" and to have "ceased to be merely local or provincial," and to have "become matter of national concern."

The Privy Council held that it was only necessary to call attention to the phrases in the various cases, "abnormal circumstances," "exceptional conditions," "standard of necessity" (Board of Commerce case (1922),

1 A.C. 191), "some extraordinary peril to the national life of Canada," "highly exceptional," "epidemic of pestilence":

"to show how far the present case is from the conditions which may override the normal distribution of powers in ss. 91 and 92. The few pages of the Chief Justice's judgment will, it is to be hoped, form the locus classicus of the law on this point, and preclude further disputes."

The Judicial Committee would seem to have gone much farther than the Fathers of Confederation contemplated.

THE CHAIRMAN: Sir John A. Macdonald, speaking on the Confederation resolutions made it clear, as was well known at the time, that he favoured a legislative union, but in order to reach an agreement for confederation he recognized that this was impossible and that it was necessary to adopt a federal system. Do you find, in the Confederation debates, any statements, on the part of those who were opposed to a legislative union, similar to those views expressed by Sir John A. Macdonald with respect to the resolutions? I presume that you have gone through those addresses. Are there any, from the opponents of the legislative union, that confirm or modify the opinion expressed by Sir John A. Macdonald.

HON. MR. MAJOR: I am afraid, my Lord, I cannot say that I have read very carefully all the addresses of the opponents of a union; at least, I have not read them as carefully as I have read the addresses of Sir John A. Macdonald and those who were in favour of it.

COMMISSIONER SIROIS: If I come across any I will let you know Mr. Attorney-General.

HON. MR. MAJOR: Thank you.

Under (8) I deal with old age pensions and pensions for the blind. This is a matter that requires legislation on the part of the provinces as well, and so far it has not been the subject of judicial opinion. According to the decided cases, however, the matter of these pensions may be held to come within the jurisdiction of the provinces, and hence the question arises as to whether or not, under our constitution, the dominion government can legally use its funds to assist the provinces in carrying out these undertakings. The British North America Act gives power to the Dominion to raise money for the public service of Canada, and in the second paragraph on page 24 I ask this question:

"Do the words "the Public Service of Canada" in said Section 102 refer only to such matters as come within the specific heads of Section 91 or do they refer to any and all matters?"

In the judgment of the Judicial Committee in the Employment and Social Insurance Act Reference (1937 Appeal Cases, 355), the following is stated at page 366:

"But assuming that the Dominion has collected by means of taxation a fund, it by no means follows that any legislation which disposes of it is necessarily within Dominion competence."

THE CHAIRMAN: Are you aware of any other expression of judicial opinion bearing upon the power of the Dominion to appropriate the public revenues of Canada? I believe it is generally assumed that the Dominion has full power of appropriation, but this expression would rather suggest a limitation.

HON. MR. MAJOR: I know of no other case, my Lord, but it has come up for discussion in the Parliament of

Canada, and in the next submission I quote the Honourable Mr. Cahan who, discussing the matter in the House of Commons in 1937, referring to the decision of the Judicial Committee, had this to say in regard to the opinion I have quoted:

"This opinion,,if it is valid, raises grave doubts as to the validity of appropriations by this Dominion Parliament of current revenues for such objects as old-age pensions, unemployment relief, or for giving assistance to provincial undertakings of any description. If these appropriations are illegal and beyond the competence of the Dominion, grave consequences may follow, and the government would be well advised to obtain a direct decision upon this issue at a very early date."

THE CHAIRMAN: Is it your view that that expression of the Judicial Committee does raise a real doubt?

HON. MR. MAJIBB: Yes. We have a grave doubt as to the ability of the Federal Parliament to appropriate monies raised by taxation to matters not strictly within its competence, in accordance with the decision of the Privy Council.

Under (9) I discuss legislation as to child labour and sweat shops, and other forms of social legislation. All these matters are apparently in the same category as the subjects of weekly rest, minimum wages and hours of labour. Legislation regarding them might in normal times be held, following the decided cases, not to come within the jurisdiction of the Parliament of Canada, but within the jurisdiction of the provinces.

Under (10) we discuss the grain trade. On April 17, 1922, the law officers of the Dominion expressed the

opinion that under the decided cases the reconstruction of the Wheat Board "is a project constitutionally incompetent to the Parliament of Canada." And in 1925 certain parts of the Canada Grain Act were challenged. On reaching the court they were held ultra vires by the Supreme Court of Canada, which was guided in its judgment by the decided cases. The reference here is to His Majesty the King v. Eastern Terminal Elevator Company, 1925 S.C.R. 434. What has been the result since? The Federal Government, in order to bring within its power the grain trade of Canada, has had to adopt an undignified, indirect and clumsy method to obtain jurisdiction, declaring all grain elevators and warehouses, of whatever variety or kind, including public elevators, private elevators, eastern elevators, terminal elevators, mill elevators, manufacturing and country elevators, whether heretofore constructed or hereafter to be constructed, works for the general advantage of Canada.

THE CHAIRMAN: Has the validity of that legislation been questioned at all?

HON. MR. MAJOR: I do not think so. There is no case that I know of.

THE CHAIRMAN: In view of some judgments of the Privy Council the question might be raised whether or not that legislation, in pith and substance, comes within 90 (c).

MR. PITBLADO: His Lordship the present Chief Justice of the Supreme Court suggested that possibly that plan might be followed.

HON. MR. MAJOR: In eleven we discuss the question of governmental regulation of business that arose in connection with the Natural Products Marketing Act, 1934. The legislation was referred to the Supreme Court in order to determine its validity, and the court unanimously held that the legislation was invalid. On an appeal to the judicial committee of the Privy council, the judgement of the Supreme Court was upheld.

In Section 12 we deal with the treaty-making powers.

The primary purpose of the Conventions was doubtless to secure such uniformity of conditions of labour throughout the world as would prevent countries with a high standard of living, such as Canada, from suffering from undue competition with countries with a low standard of living. Hence for Canada the matter had an international aspect as well as an interprovincial one and national one.

The judicial committee held that for the purposes of Sections 91 and 92 there is no such thing as treaty legislation as such. As a treaty (which does not come within Section 132) deals with a particular class of subjects, so will the legislative power of performing it be ascertained. That is, the test as to competence to enact any legislation in aid of a treaty depends on the correspondence of its subject-matters with classes of subjects enumerated in Sections 91 and 92.

THE CHAIRMAN: Mr. Major, I should like to know how you interpret the judgment of the Privy Council on the treaty-making powers? Do you understand the effect of the judgment to be -- I am now speaking of a treaty made by His Majesty in respect of Canada, duly signed under the authority of the Great Seal and all these formalities of treaty-making regulations -- that the Dominion could not legislate to give effect to that treaty that had to do with

matters falling within Section 92 because it was not a treaty made by the British Empire?

HON. MR. MAJOR: The Dominion could not give effect to it without first obtaining the consent of the provinces.

THE CHAIRMAN: If you put that interpretation on it it means that by reason of Canada's improved status, which entitles her to negotiate a treaty in respect of her own interests, after consultation, as provided within the Imperial Conference resolutions, she loses her right to implement the treaty which she otherwise would have the right to implement if it were made in the name of the Empire. In other words, she has lost her power of legislation which she had before she obtained this improved status.

HON. MR. MAJOR: She is not one of those self-governing dominions.

THE CHAIRMAN: That appears to be the effect of the decision.

HON. MR. MAJOR: The words are sufficiently clear. For the purposes of Sections 91 and 92 there is no such thing as treaty legislation as such.

We now come to Section 13, which is our last submission, under the heading of "Emergency". We say since Confederation in one other instance since the Russell case, the Privy Council has upheld legislation by the Parliament of Canada in a matter normally within one of the heads of Section 92 which did not come within the specific heads of Section 91. This was in the case of *Fort Frances Pulp and Paper Company, Limited v. Manitoba Free Press Company, Limited et al* (1923 Appeal Cases, 695), which upheld legislation enacted by the Parliament of Canada dealing with controlled prices of newsprint. In this case the Privy Council held:

1. That in normal circumstances the Dominion Parlia-

ment could not have legislated to set up the machinery of control over the paper manufacturers which was then in question.

2. That in case of sudden danger to social order arising from the outbreak of a great war the Dominion Parliament may act under other powers which may well be implied in the constitution.

3. That it is proprietary and civil rights in new relations which they do not present in normal times which have to be dealt with; and these relations which effect Canada as an entirety fall within Section 91 because in their fullness they extend beyond what Section 92 can really cover.

4. That in a sufficiently great emergency such as that arising out of war there is implied the power to deal adequately with that emergency for the safety of the Dominion as a whole."

Then under the heading "Distinction between general powers and specific powers of the Dominion," we quote at length an article which appeared in the proceedings of the Canadian Political Science Association, 1931, under the heading "Development of Canadian Federalism". I propose to read that. Dealing with the cases which I have cited, this article says; in citing the deciding cases referred to above: --

"Indicate that the judicial committee has drawn what would seem to be a totally unjustifiable distinction between the general power of the Parliament of Canada to legislate for the peace, order, and good government of Canada, and its special powers over the specific twenty-nine subjects set out in Section 91. These twenty-nine enumerated subjects were given, in the words of the Act, 'for greater certainty but not so as

to restrict the generality of the general power.' They were simply illustrations of a general principle inserted so as to avoid any doubt as to the national control of certain essentially national matters. Yet under the decisions of the Privy Council, they would seem to have become in effect the sole sources of Dominion power. The illustrations have swallowed up the rule, and it has become virtually impossible to justify any Dominion legislation unless it can be brought under one of the twenty-nine specific headings. The Fathers of Confederation planted in Canada a living tree, capable of growth and expansion within its natural limits. They gave us a living and elastic principle fit for every emergency; the Privy Council has made of it a dead and rigid test. According to the decided cases, the Parliament of Canada is permitted to interfere incidentally with provincial powers, like bills of exchange and promissory notes (head 18), or bankruptcy and insolvency (head 21), or criminal law (head 27), but cannot so interfere when exercising the general power itself."

THE CHAIRMAN: That is not part of the quotation; that is your own submission?

HON. MR. MAJOR: We quoted and I believe we say we adopt 'it.

THE CHAIRMAN: That is what I want to know. I want to know whether this is your submission or not.

HON. MR. MAJOR: We make it part of our submission.

THE CHAIRMAN: That is what I want to know.

HON. MR. MAJOR: I have read the quotation, my lord,

COMMISSIONER MacKAY: Put in the quotation mark.

HON. MR. MAJOR: It is not in quotation marks?

That is an omission; it should be. I say this quotation is from the proceedings of the Canadian Political Science Association.

THE CHAIRMAN: Where do the quotation marks end?

HON. MR. MAJOR: At the end of the paragraph.

THE CHAIRMAN: I thought it was a quotation. You say you adopt that as part of your submission and argument?

HON. MR. MAJOR: Yes, my lord. As a result of this interpretation the residuary power of the Dominion over matters of national importance, so explicitly preserved by the opening words of Section 91 and so emphasized by the Fathers at the time of Confederation, has been cut down to the vanishing point. It still exists, but the Judicial Committee has held it can be utilized only in times of great national emergency, such as a great war, a pestilence, or a plague.

It follows that the real residuum of powers, except in cases of national peril and calamity or domestic convulsions, rests with the provinces, under their exclusive power over property and civil rights in the provinces.

In the United States constitution "The powers not delegated to the United States by the Constitution nor prohibited by it to the States are reserved to the States respectively or to the people." From what was stated by the Fathers of Confederation it is clear they intended in our constitution to avoid the great evil of "states' rights" which had led to the American Civil War. As a result of the above judgments, however, we in Canada appear in this important respect of residuum of powers to have arrived at the very opposite of what was intended by the Fathers of Confederation. We have arrived at the doctrine of states' rights in the interpretation of the constitution of Canada.

Under the next heading I deal with the regulation of trade and commerce. On this page and on the pages following to page 32 we discuss the manner in which sub-head 2 of 91 had been interpreted. Our summary is to be found on page 32. But before coming to the summary I should like to read a section of the judgment which was given in the case of the Citizens Insurance Company v. Parsons (1881). This will be found on page 30 under the heading "Regulation of Trade and Commerce:"

"Regulation of trade and commerce" may have been used in some such sense as the words "regulations of trade" in the Act of Union between England and Scotland (6 Anne, c.11), and as these words have been used in Acts of State relating to trade and commerce. Article V. of the Act of Union enacted that all the subjects of the United Kingdom should have "full freedom and intercourse of trade and navigation" to and from all places in the United Kingdom and the Colonies; and Article VI. enacted that all parts of the United Kingdom from and after the Union should be under the same "prohibitions, restrictions, and regulations of trade." Parliament has at various times since the Union passed laws affecting and regulating specific trades in one part of the United Kingdom only without its being supposed that it thereby infringed the Articles of Union. Thus the Acts for regulating the sale of intoxicating liquors notoriously vary in the two kingdoms. So with regard to Acts relating to bankruptcy, and various other matters."

The Statute of Anne was passed in the year 1706.

Is it possible in the years 1875 - 1876 when the Fathers of Confederation were building the Constitution that they

should have gone to the Statute of Anne of 1706 to obtain the meaning of the words "regulation of trade and commerce"? My comment is as follows: It appears unreasonable to believe that the Fathers of Confederation in the consideration of this head of legislation ever had in contemplation the statute of Anne providing for the Union between England and Scotland. It is more reasonable to infer that the Fathers of Confederation had studied the corresponding clause in the constitution of the United States which gives Congress power "to regulate commerce with foreign nations and among the several States and with the Indian tribes."

The question of the regulation of trade and commerce appears in several cases in the years 1881, 1915, 1922, 1925, 1931 and 1936. Our summary, which appears on page 32, is as follows:

We can sum up briefly the situation in regard to the matter of legislation in relation to "the regulation of trade and commerce" by stating that all attempts to uphold jurisdiction by the Parliament of Canada under Subhead 2 of Section 91 (in relation to: the liquor traffic; through traffic on provincial railways; insurance; evils of profiteering in dealing in the necessities of life and regulating prices of necessities of life; industrial disputes; unemployment insurance; weekly rest, minimum wages, hours of labour; social services generally; grain trade; governmental regulation of business; treaty-performing power in cases which do not come within Section 132) have been just as unsuccessful as the attempts in connection with the introductory clause of section 91.

Under the decided cases the words "the regulation of trade and commerce" are almost bereft of any meaning

as a separate and distinct power.

We deal next with the question of taxation and the means which are available to the provinces and to the municipalities --

THE CHAIRMAN: Is not the last sentence of your submission a little too strong? I refer to the words "under the decided cases the words 'the regulation of trade and commerce' are almost bereft of any meaning as a separate and distinct power." Is it not perfectly clear that interprovincial and foreign trade come under that heading, and the courts have so held. Although there are observations in some of the judgments that would justify this statement, yet if you take the decision as a whole is it not clear that it is a distinct power which is operative on interprovincial and foreign trade, and possibly some general regulation of trade? But no one has ever undertaken to plead that that general regulation would be intra vires?

HON. MR. MAJOR: There has been no attempt to get a decision against the federal government who passed the legislation. The existing division of taxing powers between the Parliament of Canada and the legislatures of the province as established by the British North America Act, 1867, and interpreted by a long line of legal decisions, is familiar to all.

To express it briefly, the Dominion of Canada has unlimited powers of taxation -- "the raising of money by any mode or system of taxation." The provinces of Canada are limited to "direct taxation within the province in order to the raising of a revenue for provincial purposes," and "shop, saloon, tavern, auctioneery and other licenses in order to the raising of a revenue for

provincial, local or municipal purposes."

That is, the taxing powers of the Parliament of Canada for Dominion purposes are unlimited, while those of the provincial legislatures are limited to: "(a) direct taxation (b) within the province (c) in order to the raising of a revenue for provincial purposes, together with (d) taxation by way of licenses.

Municipal taxing powers, being derived from the provinces, are limited to those powers which the provincial legislatures themselves possess and have chosen to bestow upon the municipalities.

We discuss the Dominion-provincial financial relationships created by Confederation. It is unnecessary for me to enlarge upon them here; they are set forth on pages 33 and 34. When it comes to the question of annual dominion grants in aid on a per capita basis of the population of each province, we quote Sir Alexander Galt, who sought to justify the payment of annual grants to provinces. He said:

" It was necessary to provide by some means for maintaining certain local expenditures of the various provinces. There were the public works to be kept in order, the educational institutions to be maintained, the systems of civil law to be administered, and there were a variety of other claims to be attended to, which would naturally suggest themselves at once to anyone who reflected on the subject. For this purpose, it was found necessary to assign to them certain local revenues."

We then discuss these revenues. I am now quoting from the centre of the page as follows:

" The outlay of all the provinces being, however, greater than their local revenues it became necessary to make provision out of the General Fund for the purpose of enabling their Local Legislatures to carry on the machinery of government. It was proposed to take away from them every source of revenue they possessed except minor local revenues, and then to give them from the public chest a sufficient subsidy to enable the machinery to work."

THE CHAIRMAN: The estimate of the Fathers of Confederation as to the expenses of local governments has not been realized.

HON. MR. MAJOR: That is so. At the bottom of the page I quote Sir Alexander Galt as follows:

"But it was not intended to hold out any inducement to future extravagance to local Governments, but it was hoped that by the operating of natural causes such a check would be put upon expenditures as would bring them down to the lowest point, or at least prevent them from becoming lavish. Therefore, the subsidy proposed to be given to local legislatures was fixed, not at an increasing rate according to population but at the rate which existed at the census of 1861. By this means, as the population increased, the subsidy would not increase with it. Upper and Lower Canada would get thus within a fraction of two million dollars, and when their population increased to five millions instead of two and a half would get no more. If they increased their expenses in proportion to the growth of population they would be obliged to resort to direct

"taxation. He thought no surer check could be put upon them than thus fixing the grants they were respectively to receive.

As we are all aware, the provinces in Canada, in spite of the forebodings of Sir Alexander T. Galt, have had to resort to direct taxation. The remarks by Sir Alexander T. Galt in regard to direct taxation by the provinces illustrate acutely the problems now confronting the provinces as compared with 1867. But when the provinces found it necessary to utilize direct taxation they found that through the interpretations of the courts this important field of revenue has been seriously curtailed.

COMMISSIONER DEFOE: Was that speech of Sir Alexander Galt made at Sherbrooke or in the Legislative Assembly?

HON. MR. MAJOR: At Sherbrooke.

The principle of direct taxation has been so applied by the decisions of the Judicial Committee on the construction of the British North America Act, 1867, as to constitute a serious menace to provincial revenues. That is, after certain legislation has been enacted by a provincial legislature providing for taxation which seemed to be direct taxation, the Judicial Committee has held it to be indirect taxation and thus beyond the competency of the legislature of a province of Canada.

Four fairly recent decisions will now be reviewed briefly in order to illustrate the difficulties experienced by the legislatures of the provinces in this matter of direct and indirect taxation.

I refer first of all to the grain futures taxation case of Manitoba. In 1925 legislation was drafted for the collection of taxes from persons selling grain for future delivery. That tax was held to be an indirect tax

and therefore ultra vires of the province. The next case I refer to is the fuel-oil case. The Attorney General of British Columbia v. the Canadian Pacific Railway Company (1927 Appeal Cases, 934). The legislation there required every person who purchased fuel-oil within the province for the first time after its manufacture, or importation into the province should pay for provincial purposes a tax equal to one-half cent per gallon on the oil so purchased. That legislation was held to be invalid as the tax was an indirect tax. On page 37 I refer to the mine owners tax case. In 1923 the Legislature of Alberta enacted the Mine Owners Tax Act, 1923 (being Chapter 33 of the Statutes of Alberta, 1923), which purported to impose upon every mine owner as therein defined a percentage tax upon the gross revenue of his mine during each preceding month.

The tax was challenged and held to be ultra vires by the Privy Council. On page 38 I refer to the case of the Attorney General for British Columbia v. McDonald Murphy Lumber Company, Limited. -- Section 58 of the Forest Act (chapter 93 of the Revised Statutes of British Columbia, 1924) imposed a tax upon all timber cut within the province except that upon which a royalty was payable, but provided that in the case of timber used or manufactured in the province there should be a rebate of nearly the whole tax. The Forest Act prohibited under penalty the export of any timber without a certificate that the tax due in respect of it had been paid.

That legislation was challenged and was held invalid by the Judicial Committee in 1930.

On page 39 I sum up by saying: One can sum up the anomalous situation relative to taxation by stating that the provinces, which alone have the power to pass laws

in relation to such matters as unemployment insurance, old-age pensions¹ and the great social services, hereinbefore referred to, have not at present the powers of taxation necessary to meet the outlay for them.

Under the divisions that I have mentioned (provinces as independent and autonomous; matters of national importance; the regulation of trade and commerce; taxation), we have discussed certain aspects of the interpretation of the constitution of Canada in so far as same relates to the matters to be considered by this Commission.

There now remains the question of amendments to the Constitution. I deal with that question on page 41. It may be said from the above that the original conception and the present position of the constitution of Canada are poles apart. It has been interpreted in a way which it can safely be said would have caused consternation in the mind of those who framed it.

It will be apparent from the decided cases in such matters of the gravest national importance as unemployment insurance, weekly rest, minimum wages, hours of labour, and other great social services, that we in Canada are practically at an impasse. The Dominion, according to the decisions referred to above, has not the power to pass legislation in relation to such matters; the provinces alone have the power to pass such legislation, but they cannot in practice deal with such matters satisfactorily, as from their nature only national action in regard thereto can really be effective. In addition, to repeat what has already been emphasized, the provinces have not at present the powers of taxation necessary to meet the outlay for said matters and matters of similar import.

The closing words of the first Resolution of the Quebec and London Conferences are as follows: "Provided such Union

can be effected on principles just to the several provinces." If anyone can say that the present situation is "just to the several provinces," it may well be asked what would be the conditions which would make the situation "unjust to the several provinces."

It is worthy of note that in the Order in Council appointing this Commission, the matters to be investigated and considered postulate the existence of certain facts which appear to admit the grievances of the provinces which are set out above.

Hence one is led to the irresistible conclusion that our constitution as it stands at present has ceased to be an effective instrument of government. It should be amended so that the defects which have been pointed out can be removed, and so that it will meet the needs of to-day and will cease to be an obstacle to social progress and national development.

It will, of course, not be overlooked that our constitution can be changed by progressive judicial interpretation. This is a slow process and it is unreasonable now to expect the courts to overrule the long series of decided cases and remould and refashion the Canadian constitution by "judicial legislation" so as to make it conform satisfactorily to the requirements of present-day social and economic conditions which are profoundly different from those which existed seventy years ago. Hence any amendment of our constitution must be made by legislative enactment and it is such an amendment that is referred to hereafter in this paper.

THE CHAIRMAN: I take it -- you do not say so in express words -- the only conclusion to be gathered from your argument as here cited is that your government favours an amendment of the constitution so as to give the

Dominion the power to enact legislation covering the matters you have enumerated and discussed.

HON. MR. MAJOR: To a very great extent, yes; particularly the services which are to-day of great national importance such as unemployment insurance and other great social services.

The Imperial Conference of 1926 issued the famous report known as the Balfour Report. The main declaration in this report was:

"The Committee are of opinion that nothing would be gained by attempting to lay down a Constitution for the British Empire. Its widely scattered parts have very different characteristics, very different histories, and are at very different stages of evolution; while, considered as a whole, it defies classification and bears no real resemblance to any other political organization which now exists or has ever yet been tried.

There is, however, one most important element in it which, from a strictly constitutional point of view, has now, as regards all vital matters, reached its full development -- we refer to the group, of self-governing communities composed of Great Britain and the Dominions. Their position and mutual relation may be readily defined. They are autonomous communities within the British Empire, equal in status, in no way subordinate one to another in any aspect of their domestic or external affairs, though united by a common allegiance to the Crown, and freely associated as members of the British Commonwealth of Nations."

The Balfour Report, however, does not refer to one respect in which Canada's constitutional position is

different from that of the other self-governing communities. The other self-governing communities referred to in the said report have power to alter their own constitutions. The Dominion of Canada alone of the self-governing communities has no such power. Its constitution makes no provision for its amendment. In the great matter of amending Sections 91 and 92 of the constitution, no amendment has ever been enacted.

Hence it appears that it is not accurate to say that Canada is equal in status to those communities which have power to alter their own constitutions.

The present situation emphasizes that there must be a reallocation of legislative power between the Dominion and the provinces. The recent decisions have linked the demand for reallocation to social and economic questions of the gravest import.

COMMISSIONER SIROIS: To make it perfectly clear, your government asks for an amendment dealing with the matters mentioned in the third paragraph of page 41, unemployment insurance, weekly rest, minimum wages, hours of labour, and other great social services.

HON. MR. MAJOR: These are some of the questions.

COMMISSIONER SIROIS: Only some?

HON. MR. MAJOR: Yes; there may be others.

COMMISSIONER SIROIS: Thank you.

HON. MR. MAJOR: They can be determined only by a conference that might have to be held later on for that purpose. I make this concluding observation on behalf of the province:--

THE CHAIRMAN: Mr. Major, you speak of the effects of the declaration of 1926.

HON. MR. MAJOR: Yes.

THE CHAIRMAN: And you come to the conclusion that the

status is not accurate in so far as Canada is concerned by reason of the fact she has not the power to amend her own constitution. I believe that declaration was aimed at a different point from that particular one. Do you make any suggestion as to whether Canada should have the power to amend her own constitution?

HON. MR. MAJOR: Yes; the government of this province is strongly in favour of Canada being given the power to amend her own constitution.

THE CHAIRMAN: It would have to be under certain restrictions.

HON. MR. MAJOR: Naturally, that is recognized.

THE CHAIRMAN: That would protect special rights and interests.

HON. MR. MAJOR: Yes.

Our concluding observations are as follows:

A consideration of the events, etc., which preceded 1867 tells us that difficult and strenuous times confronted the Fathers of Confederation. The sectional and political differences and the clash of controversy must have made the problems of Confederation seem almost impossible of solution. We cannot as yet and perhaps never will be able to distribute among the Fathers of Confederation the credit which is due each of them for the part he played in consummating the union of these provinces. But sectional and political differences were temporarily forgotten, the clash of controversy was suspended, the Fathers of Confederation each brought to his country's altar the highest powers and talents which within him lay. The British North America Act, 1867, was the result.

That Act served well the times for which it was enacted. But seventy years have passed since the Union was effected. That is a long period in the life of a young country

like Canada. A new orientation of the rights of the citizens in relation to the government of the state has arisen. The brotherhood of man has a meaning now quite different from the meaning of 1867. The problems we have touched on above (and there are doubtless others) have widened the scope and altered the tempo and functions of government.

Shall the march of progress continue or shall we in Canada remain in the mould of an age that is past? The constitution as it stands is not able to meet the new conditions. It demands amendments.

Again, as prior to 1867, there are sectional and political differences which project themselves into the life of the people of these nine independent and autonomous communities which occupy the northern half of the North American continent. Again, as prior to 1867 the clash of controversy is heard in the land. The lessons of history teach us that a democratic people will not indefinitely suffer disabilities. In its last analysis the constitution of our country comes from the people. No great question is ever settled until it is settled right.

The Government of Manitoba believes that the problems now before us are no greater than those of 1867. It believes that again sectional and political differences can be temporarily forgotten and the clash of controversy can be suspended so that the necessary changes can be made to enable our constitution to meet the problems which now confront us.

The Government of Manitoba hopes that these submissions which are being made to this Commission, and through this Commission to the tribunal of public opinion, will serve some good purpose.

THE CHAIRMAN: Thank you, Mr. Major, for your presentation of this very important subject. Of course, you recognize that there is a difference of opinion in regard to these matters, and the Commission will necessarily reserve its opinion until it has heard submissions from all of the provinces as well as the Dominion. That is all you care to do this morning?

HON. MR. BRACKEN: We accept your judgment in the matter. We naturally prefer to deal with the different aspects of the situation at different sessions, but if you like to make use of the time that is left we are agreeable.

THE CHAIRMAN: That is agreeable to the Commission. Mr. Major has gone through his work a little more quickly than was anticipated. I overlooked doing what I should have done when you resumed your seat; that is, to express on behalf of the Commission our sincere appreciation of your cordial words of welcome on our coming into this province.

HON. MR. BRACKEN: They were very sincere words. This gives me the opportunity to make the request that the printed documents, Part 1, be recognized as part of our submission.

THE CHAIRMAN: Then Part 1 will go in as Exhibit No. 1 and part 2 as Exhibit No.2, for the purpose of the record.

EXHIBIT No.1: Introduction to the Submission of the Province of Manitoba,--Honourable Mr. Bracken.

EXHIBIT No.2: Submission on behalf of the Province of Manitoba, presented by Honourable Mr. Major.

THE CHAIRMAN: We shall rise now and resume at 2.30 this afternoon.

(Whereupon the Commission arose at 12.30 p.m.)

AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

HON. MR. BRACKEN: Mr. Chairman, in our study of the economic and social conditions now obtaining in this part of Canada, we have attempted to measure the weight of the burden of certain of these conditions upon our people. One of these is the monetary policy followed by the Dominion government in recent years. This part of our presentation will be submitted by Dr. Upgren. For the information of the Commission I might say that Dr. Upgren was at one time Research Associate of the Hutchins Commission of Inquiry on International Economic Relations. Later he was Economic Analyst on Trade Agreements, for the United States, Department of State. He is the author of several articles among which are "Reciprocal Trade Agreements," "Triangular Trade," "Devaluation of the Dollar in relation to Exports and Imports," and "International Trade in relation to the Devaluation of the Dollar."

At the present time Dr. Upgren is Associate Professor in Economics and Finance at the University of Minnesota.

In this study which Dr. Upgren has made, he has been associated with Dr. Grant, of our own university, and in the preparation of this part of our submission he has had the cooperation and collaboration of Professor Viner, of the University of Chicago, and Dr. Hansen, of Harvard University, two outstanding authorities on monetary problems, who have read the manuscript and are in general agreement with its findings.

I will now call on Dr. Upgren to present this part of our submission.

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The Effects of Federal Monetary Policy
on Western Canadian Economy

PROFESSOR A. R. UPGREN: Mr. Chairman, I wish first to file a copy of this brief, Part 3, the Effects of Federal Monetary Policy on Western Canadian Economy.

EXHIBIT NO. 3: Part 3 of Manitoba's submission--the Effects of Federal Monetary Policy on Western Canadian Economy

PROFESSOR UPGREN: Mr. Chairman, I would like to approach the problem of the Effects of Federal Monetary Policy on Western Canadian Economy from two angles, or in two parts. The first part runs largely in words, with a few figures, and the second part runs largely in figures with a few words. As the summary of the first part is rather short I should like, if I may, to read it, and then to discuss only the second part, with some citations from the document:

The Effects of Federal Monetary Policy
On Western Canadian Economy.

Summary of Analysis and Conclusions

The purpose of this section is to examine the extent of disability placed upon Manitoba and the prairie provinces as a result of the monetary policy that prevailed in Canada from 1931 to 1936 and to compare it with a monetary policy that would have maintained the ability of the West to compete effectively on a price basis with its chief competitors in the world markets--Australia and the Argentine. It will be shown that the annual income to the grain growers of Manitoba upon their grain exports was 6 million dollars less than if the Canadian dollar had been kept in line with the Australian pound. In fact, the cost to all Manitoba grain growers about equalled the total taxes collected annually by the provincial government. Using the same basis, the cost to wheat growers alone in the three prairie provinces averaged about forty-seven million dollars annually, which ex-

ceeded the total amount of taxes collected by the municipalities of the three provinces.

The prairie provinces export to foreign countries about 45 per cent of the value of their total net production, a proportion as high as, if not higher than, that of most important producing areas in the world. For Manitoba, the proportion of total production exported is about one-half of the average of the prairie provinces, that is about 22 per cent. But because the business of the elevator companies and grain concerns of Winnipeg depends not only upon the grain trade of Manitoba but also upon that of all the trade of Alberta and Saskatchewan--Manitoba, including Winnipeg, is really more heavily dependent upon the export trade than this figure of 22 per cent would indicate. The rest of Canada (exclusive of the prairie provinces) exports abroad only about 10 per cent of its total production. Thus, we see that Manitoba, SASKATCHEWAN and Alberta are very much more heavily dependent upon export markets than is the rest of Canada.

It is a simple truth that, as far as price is concerned, the seller of goods to buyers within his own country is concerned only with the price that he receives for his product. To the seller of goods abroad, however, there are two factors that determine the price the seller receives for his production. These two factors are: first, the price of goods in the foreign import country, and, second, the rate of exchange. The rate of exchange is equally important in determining how much that price--the foreign price--yields him in his own country.

We may illustrate this by a reference to Canada's production of manufactured goods, which generally do not enter largely into export trade, and whose producers are concerned only with the price within Canada. In contrast, the grain

grower of Manitoba, who must sell abroad about two-thirds of all the grain he produces, is heavily dependant upon the price of grain in foreign countries. In fact, it is well recognized that this foreign price, or world price, sets the price even for the smaller portion of his crop which he sells at home, but which we have not taken into consideration in our estimate of the disability to the prairie provinces. But the grain grower does not actually receive payment for his foreign sales in foreign currency; this foreign money must be converted into Canadian dollars. Thus we see that the rate at which the world price becomes converted into Canadian dollars has just as much to do with the price the Canadian farmer receives as the price of grain itself, in the Liverpool market, for example.

During the depression, England purchased agricultural foods and raw materials in even larger quantities than before the depression. But to realize the situation in which the prairie province grain growers found themselves we must recall that in 1932 England got her supplies of food and drink from abroad at an average price in her own money, sterling, that was only 45 per cent of the price before the depression. Perhaps England's greatest force for recovery was this low food cost. It allowed her people to spend a larger amount for things produced at home, and it was this in turn that assisted greatly in bringing about her sharp recovery. But this great gain for England represented a loss to Canada. Although the grain and meat producers of Australia, New Zealand, and Argentina also suffered income losses of the same nature, these losses in income in terms of Australian, New Zealand and Argentine money were kept to a very considerably lower level by the currency policy adopted in each of these countries.

In these three countries, to prevent so drastic a decline in income to the producers of export commodities, the rate

of exchange on England was permitted to rise (in contrast to an actual fall in 1932 for Canada). By this we mean that the number of Australian pounds that could be got for pounds sterling was increased by the action of the Australian government. An illustration of the actual rate for Australia will help to clarify what is meant by this change in the rate of exchange. In the past the Australian pound had a fixed parity in relation to the pound sterling; this parity may be expressed as one to one, or more conveniently as one hundred to one hundred (100 to 100). When prices of wheat and wool fell so sharply in 1931, the Australian banking system allowed this rate of exchange to change at the request and with the full indemnity of the government. The rate was changed to a rate, as the Australian puts it, of 100 to 125; that is, 100 pounds sterling would yield in the foreign exchange market 125 Australian pounds. In contrast to the policy in Australia, which resulted in a 25 per cent increase in returns in Australian money to Australian exporters on foreign sales, the Canadian policy resulted in a decrease of almost 20 per cent in the returns in Canadian money to Canadian exporters in 1932. In New Zealand, as in Australia, the exchange policy resulted in an increase in returns of about 25 per cent; in Argentina the increase was almost 20 per cent.

Let us trace the results of this policy for the wheat grower of Australia. The wheat grower of Australia, selling in the English market for a price that we assume without substantial departure from reality to remain unaffected by change in Australian currency policy, received in Australian pounds for every 100 pounds sterling worth of wheat sold in Liverpool, not just 100 pounds in value, but 125 pounds Australian money. If the price of wheat in Liverpool was unchanged, as we have assumed it to be (at least as far as any

important quantitative change is concerned), the change in what we have called the second price-making factor, the rate of exchange, meant that the Australian wheat producer got a 25 per cent increase in his own money for the wheat which he sold abroad. As a result of the fall in the English currency value of the Australian currency in the period from 1931 to 1936, the producers of wheat in Australia secured, upon their average exports of about 125 million bushels, an annual increase in returns of about 18 million dollars, or about fifteen cents a bushel.

It was just this that Canada did not do. The prairie provinces, however, do compete in the world markets, very largely with Australia and Argentina. Argentina also allowed her rate of exchange to depreciate, and to depreciate even more than the Australian rate. Thus, the currency policy of Canada did not permit her producers and exporters for the world market, by far the most important of which is the wheat producer, to compete on an equal basis with the Argentine and Australian wheat exporter. The losses to the grain growers of the prairie provinces resulting from this monetary policy have amounted, as pointed out, to an annual average of 47 million dollars since 1931. This has been measured by calculating the difference between the amount actually received for wheat exports and the amount that would have been received if the relation of the Canadian dollar to the pound sterling had been kept in line with the rate Australia maintained, always assuming that such action would have had no effect on the sterling price of wheat.

The question naturally arises as to who would pay for the benefit Canadian exporters would have received from exchange alignment. The answer is that the classes in the community that must buy abroad pay higher prices for impor-

ted goods (or for domestically produced goods whose prices are fixed in the world markets) when the currency of a foreign country rises in value in relation to their own. Therefore, the buyers of imports that must be paid for in domestic currency of a reduced exchange value may be said to contribute in large part the very addition in funds which the sellers of exports receive.

Keeping the value of the Canadian dollar in terms of the pound sterling in line with the sterling rate for Australia--a policy of currency alignment--involves, of course, certain offsetting burdens to the advantages that the export industries derive. These are primarily the increased cost of imports, mentioned above, and the increased cost of debt service abroad. Specific reference is made to these two accounts because they are the two most important items in Canada's balance of payments, and it is, of course, the total balance of payments rather than only the trade position that should be reckoned with. We suggest that the proportion of the West's surplus export receipts (the balance after deduction of payment of its imports) required for debt service must be a minor proportion of this surplus.

In order to illustrate this point let us assume--as is probably close to reality--that the proportion of total income absorbed in the payment of debt service abroad is uniform throughout Canada. We reach the conclusion that maintaining the value of the Canadian dollar greatly benefited Eastern Canada by providing at a lower cost (than would have been provided in the case of the policy of currency alignment) Eastern Canada's foreign debt service, which was much greater in relation to its exports than that of Western Canada.

THE CHAIRMAN: I suppose when you come to your figures,

you will give us some figures bearing on these points?

PROFESSOR UPGREN: I hope on the conclusion of the Summary to give figures that will explain some of the points made here. To continue with the brief: In the case of Western Canada, on the other hand, the gain represented by the enhanced price for agricultural exports would be absorbed only to a minor degree by the increased payments required for foreign debt service. This statement is based upon the fact that a very substantial proportion of costs in agriculture is the fixed costs of taxes and freight rates, which are payable in domestic currency, interest on that part of total indebtedness that is also payable internally, and the cost of supplies obtained from domestic sources whose prices are not determined in the world markets. Of the amount of agricultural income required for total debt service, we are, of course, interested in the proportion that is payable in domestic currency. That this is a major proportion can, of course, be shown by a comparison that would reveal the fact that indebtedness held abroad in every form against Canadian debtors is a minor proportion of the total indebtedness of Canada on every account.

We have attempted in the following section to estimate the loss to Western agriculture of the failure of Dominion monetary policy to maintain equality in competition with Western Canada's important competitors, Australia and Argentina. We believe the cost of failure to follow that policy is in part shown by the difference between the sum that would have been realized upon the exports of Western Canada had the policy of currency alignment been pursued and the sum that was actually realized.

We realize that the rate of exchange as a part of monetary policy is not to be considered only by itself. Here we refer particularly to the policies followed in Australia

which attempted directly to reduce the burden of interest, to reduce wages, to reduce governmental costs, and to place an increased share of the governmental burden upon those receiving income from property sources. But we would assert that the predominant view of the literature on monetary policy in Australia is that the very cornerstone of her monetary policy is that aspect which relates to the exchange rates of the Australian pound in relation to the pound sterling.

One illustration may suffice to show the connection between low interest rates and the rate of exchange. At a later point in this section we show that that increase in the burden of service on Australian government debt held abroad which may be directly attributed to the rise in the London rate of exchange actually proved to be almost fully offset by the interest savings derived from refunding operations which were made possible by the favourable trade balance resulting from the exchange depreciation. Moreover, the monetary policy in Australia clearly resulted in higher prices to farmers than would have otherwise prevailed. Without the monetary policy of depreciating the Australian pound against the British pound, the urban communities in Australia would have been receiving a bonus from the farmers in the form of abnormally low prices of food. Thus, the monetary policy was merely a correction of an unbalanced price situation as between agriculture and other products.

It has been observed that Western Canada finds its export markets (for wheat) chiefly in the United Kingdom and to a lesser extent in Continental Europe. In contrast, Eastern Canada finds its export markets largely in the United States, especially for wood pulp and newsprint, and to a considerable extent for metals. As a result of what we

may call these divergent or "crossed" channels of export trade, the actual policy pursued was much more injurious to Western Canada than to Eastern Canada; this was because Western Canada sold in markets whose currency depreciated relative to the Canadian dollar, whereas Eastern Canada sold largely in the United States -- a market with an appreciating currency.

In summary, it may be said that until 1933 the Canadian dollar appreciated against the British pound. As a result Western agriculture, which sold a great share of its wheat exports to Great Britain, received a depreciated price for its wheat exports to that country. And the changes in the foreign exchange value of the pound sterling probably would not have greatly affected the price of wheat in England. In fact, in 1932, with quotas, exchange controls, and higher wheat tariffs in Germany, France and Italy, the main buyer of world wheat was England. Consequently, the price of wheat in Canada was dependent upon the English price converted into Canadian money with, of course, certain minor qualifications that are of minor quantitative significance. The policy of appreciation of the Canadian dollar relative to the pound sterling up to 1933 diminished the returns to Canada for its exports of wheat. In contrast, Eastern Canada because, as we have pointed out, of larger sales in the United States, enjoyed an increase in returns from its exports due to the fact that the Canadian dollar was depreciated against the American dollar. Since prices of newsprint for example, were determined by conditions in the United States just as prices of wheat were determined to a very considerable extent by conditions in Great Britain, the actual rate of exchange vis-a-vis the United States dollar gave to Eastern exporters to that country a greater monetary return.

COMMISSIONER ANGUS: If the Canadian dollar had been depreciated, would not the advantage of eastern Canadians selling, as you say, in the United States market have been greater than it was?

PROFESSOR UPGREN: It would have been greater than it was.

COMMISSIONER ANGUS: And their relative position to Manitoba would have been much the same as it was?

PROFESSOR UPGREN: That is right. To continue:

Thus, we observe from the analysis of the channels of export trade of the various areas of Canada a great diversity of trends resulting from her pronounced economic regionalism, as represented by her three great primary industries, agriculture, metals, and wood and forest products. The resulting pattern of economic consequences may best be described as in the nature of a "whip saw," for the West had its income reduced at a time when its burdens had increased. This action, we have shown, resulted in detrimental effects to Western Canada and certain favourable effects to Eastern Canada, both the result of a single monetary policy common, of course, to all parts of the country.

I should also like to read the note:

NOTE: The Australian Commission on Grants to the States of Western Australia, South Australia, and Tasmania acknowledged and measured the benefit of this exchange policy to the export industries in the three states mentioned. In fact, these benefits were estimated at amounts that were about equal to the losses caused to these three states by Australian tariff policy. It is also interesting to note that the Commission, in determining the amount of the disabilities to these three states arising out of national policy, deducted the exchange rate

advantage from the losses due to tariff policy. In this way they arrived at a net loss. We wish to point out that in Canada the disability due to the exchange policy is to be added to the disability by the tariff to arrive at a gross loss. We consider later the disabilities to the prairie provinces which arise out of the tariff policy of Canada.

THE CHAIRMAN: Did Australia go off gold because she could not stay on?

PROFESSOR UPGREN: I think that is correct.

THE CHAIRMAN: It was a monetary policy forced on Australia by her inability to meet foreign payments in gold. They had so reduced their gold supply that they had to go off the gold standard. That is my recollection of my reading at the time.

PROFESSOR UPGREN: That is certainly true. In other parts of the world countries have been forced off gold, and then later on the time comes when they fix the rate.

THE CHAIRMAN: I was saying that your statement appears to be based on the assumption that the Australian policy was deliberately adopted, which produced highly beneficial results to the Australian people. But as I understand it, the policy was forced on Australia, by reason of her inability to meet her payments in gold. They shipped out great quantities of gold and reduced their supply to a point where they felt they could not go further, and then they had to go off gold.

PROFESSOR UPGREN: I perhaps did not make myself clear in my reply. Once they have separated from gold, some decision must be made as to the level at which the exchange rate shall be, and the policy comes after the separation from gold.

(Page 91 follows)

I refer now to the figures in order that they may serve to illustrate some of the points given in the rather brief summary. In connection with the value of the Canadian dollar, I speak of this in the second paragraph as though it were a matter of definite policy, because when you pursue one course rather than another it is reasonable to assume that you have adopted a definite policy. And when it is apparent that the intention is to keep the Canadian dollar half way between the British pound and the American dollar, as I have indicated, I regard that as a policy, because other alternatives are available and are not adopted.

CHAIRMAN: Where do you find that policy set out?

PROFESSOR UPGREN: The Canadian dollar was maintained half way between the pound and the United States dollar, and the selection of that policy, I submit, presumes the rejection of other possible alternatives.

COMMISSIONER ANGUS: Why do you say, in reference to the Canadian dollar, that it "was maintained at a level" rather than that it found its level at a particular point.

PROFESSOR UPGREN: I say that, sir, for this reason. I recall that the Minister of Finance intimated his desire to hold it at the level to which I have referred because by so doing the servicing of debt in the United States would not be too great, and that seems to me to be a decision that partakes of the nature of a policy.

THE CHAIRMAN: What evidence is there of active steps having been taken in that regard?

PROFESSOR UPGREN: I give the export of gold and the loss of foreign assets as evidence that it was maintained for the purpose I have indicated. In the second paragraph I merely refer to the fact that an alternative policy might have been to bring the Canadian dollar into line with the Australian pound.

In the third paragraph there are a few figures which again are supported by tables to which I would refer the Commission. The figures are indicated in the second sentence:

"As is shown in Table 18 (which gives data for each of the years from 1930 to 1936), Western Canada produces more than 90 per cent of all wheat produced in the Dominion. In 1930, for example, the total wheat production in Canada amounted to 421 million bushels of which 397 million bushels were produced in the three prairie provinces. Of this total Canadian wheat production, 54 per cent was exported (Table 9). In 1930 exports from the Prairie provinces of four grains were valued at 201 million dollars (Table 1), while their total net production of all goods of every kind had a value of 456 millions (Table 3). A comparison of the last two figures reveals that grain exports of the prairie provinces amounted to about 45 per cent of their total net production of all goods."

Perhaps no country in the world lives as much by bread alone as does Western Canada. The rest of the paragraph indicates that Eastern Canada exports, in the major products about 9 per cent of the value of the total net production of all non-prairie provinces.

COMMISSIONER ANGUS: They export 9 percent of the total production of six items.

PROFESSOR UPGREN: Yes. As regards the second paragraph, I would point out rather briefly that the policy of currency alignment of the Canadian dollar would have had this general effect. Agricultural areas when a depression comes, cannot of course easily restrict production, because they pour the same volume upon the market. Manufacturing areas can restrict production and hold prices better than agricultural areas can

because if the farmer attempts to curtail his production he throws himself out of a job, and that is something he cannot do. Therefore, to relieve the pressure consequent upon these differences in the conditions under which goods are produced by agriculture as opposed to industry, in many countries of the world a currency policy was adopted to improve the returns to producers of agricultural commodities and raw materials.

This means that when you improve their returns, other sections of the community that buy abroad have to pay somewhat more, in that way literally making up the fund which the farmers receive in the form of a higher return in their own money for their own produce.

In the third paragraph I indicate some of the points made in the summary. I am referring now to page 8.

The fourth paragraph contemplates measuring the extent of the disability. One might ask this question - and here I am referring briefly to the last sentence in the footnote. Suppose all countries had followed the policy of Australia, the Argentine and later Canada and the United States, and had entered upon it at the same time, what would have happened? The conclusion to which a large number of people have come is that expansionist policies generally - freedom to act, to expand credit and to induce recovery - could not in many countries get under way until there was that freedom from pressure of gold which the Chairman indicated some time ago in a question he asked.

I should like to turn now to the middle of page 9 giving some of the tables to illustrate the points made. Table 1, at the bottom of the page, gives the relation of prairie province grain exports to total Canadian grain exports and to total Canadian exports. The first line,

taking the first year, 1930, shows that total Canadian exports of all classes were approximately 800 million dollars. The exports of four grains, given in the next line, amounted to \$213,000,000. Grain exported for the prairie provinces amounted to \$200,000,000. which, as indicated in the fifth figure was 25.1 per cent of all the exports of Canada. In the case of Manitoba we give the figure separately.

Turning to page 10, Table 2, which I should like to contrast with table 1, repeats in the first line the total Canadian exports of all types of goods, which again is \$800,000,000. It happens that the important exports of four metals, and wood pulp and news print - the metals being copper, lead, nickel and zinc - amount to \$199.7 millions, or roughly speaking \$200 million. That also is 25 per cent of the total Canadian exports of all classes, giving us the fifty percent sample to which I referred in reply to a question.

THE CHAIRMAN: The figures indicate that the exports of four metals and woodpulp and newsprint amounted to approximately the same percentage of total exports as did the exports of grain from Western Canada.

PROFESSOR UPGREN: Yes, my Lord, that is right - in 1930. And if we take the average it is approximately the same throughout the period. Turning now to table 3, instead of giving the total exports in the first line we give the total net production. In 1930, for the prairie provinces, the total net production was \$456.2 million.

CHAIRMAN: Are these figures taken from the dominion Bureau of Statistics.

PROFESSOR UPGREN: They are from the Canada Year Book. In the second line we find that there is a percentage of grain exports to total net production of \$200 million,

referred to a moment ago of 44 percent. Let us put it in another form and we find that western agriculture in that year exported 44 per cent of the total net production, which is the high proportion referred to in the summary. In the case of Manitoba, the grain exports represented in that year 16.1 per cent of the total net production. In the next large figure, \$2,727.7 millions, we have the net production of the rest of Canada other than the three prairie provinces, and the percentage given below - 7.3 per cent - is the relationship which the \$200 million exports of newsprint, woodpulp and the four metals to which reference has been made, representing exports by the rest of Canada, bears to production.

THE CHAIRMAN: Why do you choose only these particular substances for purposes of comparison, rather than the total production?

PROFESSOR UPGREN: Simply as a matter of convenience. It would be extremely difficult to include all of them. Textually, I have pointed out that if we were to go further in attempt to enlarge the list, we would add precious metals, and that would give for Eastern Canada an amount that would probably equal the exports of animal products from the west. So that if we carried the analysis beyond the fifty percent illustration we should probably not alter the picture greatly.

Turning to page 12, I would discuss Table 4 for a moment.

COMMISSIONER ANGUS: In the middle of the last paragraph on page 11, you say that if all exports not covered by the Tables given above were credited to the non prairie provinces, their exports would still approximate only 22 per cent of their production, or but one-half of the prairie province grain exports.

PROFESSOR UPGREN: Yes. Perhaps it would be helpful to discuss that paragraph. Suppose, after giving credit to the West for exports of wheat, amounting to 44 per cent of all it produces, we had said that everything else exported by Canada was exported by the non-prairie provinces, it could only have lifted their proportion of exports to their total production to 22 per cent. I am trying to indicate the extreme limit. Since animal products in the West are fairly important, I should expect that the figure would be somewhat less than twenty per cent.

COMMISSIONER ANGUS: How do you reconcile a figure somewhat less than twenty per cent with the ten per cent given on page 1.

PROFESSOR UPGREN: There I gave round figures. The ten percent is a very rough average of the figures in the last line of Table 3.

COMMISSIONER ANGUS: It is limited to six products?

PROFESSOR UPGREN: Yes, which is 50 per cent of all products.

COMMISSIONER ANGUS: Yes. But 22 per cent is your figure for the portion of Manitoban produce which is exported, and you compare that with the proportion of the total production exported from the non-prairie provinces, which latter you call 10 per cent. When we come to page 11 we find your ten per cent. It is from the non-prairie provinces, but it is confined to four metals and woodpulp and newsprint. The question I should like to have you answer is this: Why are you comparing the figures of total exports from Manitoba with a figure that is confined to six articles from the non-prairie provinces, although here you call it a percentage of their total production? You go on to say that for the non-prairie provinces the proportion of their total production exported could not

be quite as high as 22 per cent. After all, you have said that one figure is about 22 per cent; then when you correct it to correspond to the other page it is nearly 22 per cent. Why do you call it 10 per cent when as a matter of fact it is nearer 20 per cent?

PROFESSOR UPGREN: We have tried to point out that that is a minimum figure, but that Manitoba, geographically, serves a whole area, especially Winnipeg. It happens that political lines are drawn across the area, but that is unreal in terms of the income of the people of Manitoba.

COMMISSIONER ANGUS: I still come back to that question. Would it not be fair to say that the figures are respectively 22 per cent and nearly 20 per cent?

PROFESSOR UPGREN: When you say 20 per cent you give credit for practically everything; you have credited all other exports to the non-prairie provinces. We do not want to compare the most favorable basis in the one case with the least favorable basis in the other; we have tried to get them both on as fair a basis as possible.

Turning to page 12, the figures given show the total exports and the total imports of Canada, and the indexes of them. Table 5 supplies indexes of the average unit price and of the physical volume of total exports and total imports, and these data show that the physical volume of Canadian imports increased very substantially in 1931. In that connection we observe that exports, as to prices, declined on the average to 52. I refer to the figure for 1933, which happens to be a low point. The volume fell to about 70. In the case of imports, the price level fell to about 54 in 1933, and in the same year the physical volume fell to 81.

Turning now to Table 6 at the bottom of the page, we find set out the price levels and the quantities sold

by various major industries in Canada. Let us take agriculture first of all. Based upon the 1926 index of unit price, given in the very first column, in 1933, which happens to be a low year, the index had fallen to 42. By 1936 it had recovered to 59. The index of physical volume, given in the second column, reached a low point of 73 in 1932 and in 1936 it was only 68. In other words, the exports of agricultural products fell to 68 per cent in quantity and to 59 per cent in price. The figures in the third and fourth column give similar data for animal products, and the results are not materially different.

Turn to page 14, Table 7, we have indexes of average price for non-ferrous metals and their products, and wood and paper products - newsprint and woodpulp primarily. The indexes there reveal that for non-ferrous metals the low point was reached in 1933, the price figure being 56 per cent, while the index figure with respect to volume, on the basis of 1926, is 170. That is to say, the tonnage of metals exported in 1933 was two thirds greater than the volume of 1926. In the case of wood and paper products, the 1933 price is 65 per cent of the 1926 index, whereas in 1936 it was 57; and the volume in 1936 was 114, or above the 1926 level. In other words, these two important industries scored gains in volume although there were losses in price.

COMMISSIONER ANGUS: What do you include in wood and paper products?

PROFESSOR UPGREN: That includes the entire classification of products, newsprint and woodpulp constituting the most important of them.

COMMISSIONER ANGUS: It includes lumber as well?

PROFESSOR UPGREN: Yes, I have figures to show their relative importance. Perhaps I might read a part of the

text given in connection with Table 7, starting at the bottom of page 14:

"The position of the mining industry of Canada in recent years is striking. Although the unit price of exports of non-ferrous metals declined to a level of 56 in 1933 as compared to 1926, this unit price had recovered to about 90 by 1936. But in the same period the volume of exports of non-ferrous metals increased to more than double the volume of 1926. The sharp recovery in volume was at first largely due to general world recovery and to the increase in the price of gold. But the continued improvement in both price and volume is perhaps more to be associated with present rearmament in Europe. In this connection it may not be amiss to point out that the present plight of agriculture may later apply to the position of important branches of the mining industry, since they have developed to so great an extent upon what may prove to be not a permanent basis - that is, rearmament and a recovery in the production of durable goods that cannot be sustained when post-depression replacements are substantially completed."

Turning now to table 8 on page 15, we have some other indexes for two classes of imports. They are given partly to fill out the picture and they show that the price held up substantially in the 80's and 90's. The volume tumbled badly in 1933 but had recovered appreciably by 1936. For non-metallic minerals, in the third and fourth columns, we observe that the price declined in 1936 to 65, the low point being 58 in 1934. The volume, except in one year, 1933, was maintained at a level equal to the 1926 level or above it. I should like now to turn to page

16, at the top of the page, particularly to discuss two sentences.

THE CHAIRMAN: Do you recall what particular minerals are classified as non-metallic?

PROFESSOR UPGREN: The non-metallics are chiefly coal and oil. These are imports. Turning now to the top of page 16, the sentence beginning with the words, "The quantum", in the fourth line, I would quote the following:

"The quantum of coal and oil imports has been above the volume of the base year in every year except 1933, when there was a decline of only 4 per cent. In the period since 1930 imports of crude petroleum have increased approximately 10 per cent in volume over imports for 1930. This is fairly consistent with the total sales of gasoline in Canada. But it should be pointed out that although total sales of gasoline were fairly well maintained in the Dominion as a whole, sales in Manitoba declined by as much as 25 per cent from 1930 to 1934. In Saskatchewan the decline was more than 50 per cent."

Turning now to Table 9, in the middle of page 16, we find that figures are given showing the production of wheat in two years of Canada, Australia, Argentina and the United States. These figures show - and this is all they are intended to show - that the first three countries exported roughly somewhat more than fifty per cent of all wheat produced. The United States, in the two years indicated, and especially in the second, had about entirely withdrawn from the export market owing to the drought.

I turn now to Table 10 on page 17, which will assist us in answering questions with respect to the exports

of Canada. We have given in brief form 11 leading exports. First of all, there is wheat, the amount exported being, in millions of dollars, 149, more than fifty per cent greater than any other single class of export listed. Moreover, that does not include the eleventh on the list, wheat flour, which is 19.

Combining the two, we have about 160 for wheat, including wheat exported in the form of flour, and the second item, newsprint, 91; and adding woodpulp, these two items, 91 and 20, give a total of 119 compared with 168 in the case of wheat. The third item is gold, then nickel, then woodpulp, then planks and boards, a fairly important item though not large compared to wheat; then fish, which amounts to 24; then meats, 24, automobiles 24 and copper 24.

This gives a rough idea of some of the exports to which I have referred.

I turn now to Table 11 at the bottom of page 17. There we find indexes of export prices of wheat for Australia and the Argentine in comparison with Canada, and the index of import price for the United Kingdom is also given. Taking 1926 as 100, we observe in the very first column that the export price of wheat in Canada declined steadily, reaching a low point in 1932 of 38. Turning to the column for Australia, we find that the low point was reached in 1932, the figure being 44.

COMMISSIONER ANGUS: Is the price in the currency of the country in each case?

PROFESSOR UPGREN: Yes, it was; but the change in the currency policy of Australia assisted in that earlier recovery in the price in contrast to the decline that continued for two more years in Canada.

I come now to the final column. I do not refer to

the Argentine figure because I do not place very much reliance on it. If we turn to the import prices for the United Kingdom, we find that the low point was reached in 1931, when the figure was 39, but in 1932 it had recovered to 47. Then it declined to 42, 41 and 46. In other words, there was no appreciable advance in a period during which the price in Australia recovered rather sharply. The currency policy permitted that improvement.

I should like now to turn to one sentence at the bottom of page 18 in the last paragraph but one. I quote:

"It will be observed that the increase in value is calculated only on the quantity exported. This increase in price would, of course, favourably affect the domestic price."

The point I am making is that when a currency policy does improve a price, that price applies to the total production of goods if the price is set in the world market. In calculating the benefit to Manitoba, I have of course disregarded the improvement which would have accrued to the prairie province producers in respect of wheat sold within Canada. The purpose is chiefly that of simplicity; certain offsets should be credited also. A comparison which would include all that would, however, be difficult.

THE CHAIRMAN: Would not one expect that one of the results of a depreciation of currency, so far as the price level is concerned, would be that the price level of all domestic produce would rise.

PROFESSOR UPGREN: Presumably it would not rise in respect of commodities if the prices were set wholly in Canada. Take house rent for example.

THE CHAIRMAN: Is not that supposed to be one of the objects of inflation - to induce a general rise in the price level?

PROFESSOR UPGREN: You increase first of all the incomes of those who are benefited and you increase prices of goods sold abroad where the rate of exchange applies. Certain groups that sell abroad receive increased incomes and that tends to increase prices. That would be the reason for a general rise in prices.

THE CHAIRMAN: If one had to pay increased prices for what one bought, that would offset the increase in returns from sales abroad, and a balance would be struck

PROFESSOR UPGREN: I should make one correction there, and that is that the export price would be affected quickly by the rate of exchange. Internal prices would be affected gradually as increased incomes came into play. But there is a pronounced lag in internal prices. The export price responds quickly, but the internal price is slower.

I turn now to table 12 at the top of page 19. Here we attempt to measure wheat production. We give the wheat production of Australia, including flour, and we calculate the excess value due to the exchange rate. It will be observed that the annual average, as set out in the last column, is 3.6, which is in pounds. The calculated excess value due to the exchange premium of 25 per cent shows an annual average of 3.6, taking five dollars to the pound. The total for the five years indicated in this table is 18 million dollars. That is the average increase in receipts which the Australian exporters of wheat received.

THE CHAIRMAN: Why do you use five dollars to the pound.

PROFESSOR UPGREN: Merely as a matter of convenience.

THE CHAIRMAN: I wondered whether there was any special reason for it.

PROFESSOR UPGREN: No; we use that figure only for the sake of convenience. Now I wish to turn to a short passage at the bottom of page 19:

"Table 13 summarizes the share of Manitoba in the total Canadian exports of four grains, and estimates the increase in value that would have been obtained for these exports if the Canadian dollar had been held at a discount of 20 per cent from the pound sterling and if the sterling price of wheat had remained unaffected by Canadian depreciation."

I read that statement to show that the table on page 20 is an attempt to indicate what might have been increased returns to Manitoba's grain producers on their exports if the currency rate in Canada had been in line with that of Australia.

THE CHAIRMAN: If the Sterling price of wheat had remained unaffected by Canadian depreciation the situation would have induced a much larger export of wheat than was actually made. What affect would that have had on the British market?

PROFESSOR UPGREN: We have given figures to show that as Australia exported more she piled up in London foreign funds that were not needed; at any rate we wish to contrast that with the fact that Canada lost large amounts of foreign assets. The point I wish to make however is that, had Canada pursued a policy of depreciation, she would probably not have lost these foreign assets. As a result of that policy she would probably have computed more

vigorously with Australia, taking a share of the benefit that accrued to that country. Later I will give the figures, but here I may point out that New Zealand followed the same policy. She had also piled up funds in London. In fact, when New Zealand started the Central Bank it was said that her greatest problem was the disposition of the funds accumulated in London.

(Page 101 follows)

If that were so it would tend to follow that the loss of funds on the part of Canada meant the currency was kept too high; because that would be one test, at least, for disequilibrium.

COMMISSIONER ANGUS: I think perhaps you are right. If Canada had traded vigorously with Australia would that not have lowered the sterling prices of wheat in Liverpool?

PROFESSOR UPGREN: I would be inclined to think the competition in part would have come into parity with the other large exports. The United States, as I have tried to indicate was practically out of the market. In 1930 the United States exported only nine per cent of its wheat; whereas formerly it exported at least fifteen per cent, and very frequently close to twenty per cent. The situation was such that that could have taken place because the other four large exporters were out of the market. Australia, I would be inclined to think, and as I will try to show later on could not have been at a greater advantage.

THE CHAIRMAN: The policy in Canada has been to hold large stocks of wheat in reserve.

PROFESSOR UPGREN: I would answer that by suggesting the large stocks held back may nat itself be reflected in the picture. I now refer to table 13 in the middle of page 20. The figures indicate the policy I mentioned a moment ago. This table shows that the average for the six year period was approximately \$6,000,000. We shall now turn to table 14 on page 21. Another illustration is given here merely for illustrative purposes to show the effect on the price of butter in New Zealand by currency policy. Down to 1932 the price of butter in New Zealand fell to 62, expressed in terms of index. The price fell to 55 in 1933; while the price in Great Britain fell to 40. Currency policy succeeded there, at least, in getting for

the exporter of butter in New Zealand a greater return in relation to the price in Great Britain. If we turn to page 22, table 15, we find the actual rate of exchange for the pound. The first figure gives the actual price; the second set of figures gives the index. The index was based on 100 in 1930. The index with the values of the pound sterling fell to 81.71 per cent. In a later submission the actual figures are given. We have referred to that later. But, the American dollar rose, of course, to an index above 100. The nature of the trade and production of Canada is such that the policy followed was one that in itself very seriously affected the west, and unavoidably.

We may turn to page 23, table 16, which gives an index of the rate of exchange to which we have referred on a previous page. This table gives the percentage increase in export receipts at 100 to 125, which is the rate we have indicated per bale for Australia, and which we used in the calculation I have given in the case of Canada. That reveals the export returns would have been increased by 29 per cent in 1931 -- a very high figure -- to 52 per cent in 1932, and the figures are given in the remaining order.

THE CHAIRMAN: To what table are you referring?

PROFESSOR UPGREN: Table 16 at the top of page 23.

Now, let us turn to table 17 on the same page. In the first column we have the percentage appreciation of the Canadian dollar, 3.49, 22.38, 6.62, and starting in 1934 a slight depreciation, as contrasted with the slight depreciation of the Australian pound.

THE CHAIRMAN: That is the depreciation of the Canadian dollar in reference to the pound?

PROFESSOR UPGREN: That is correct.

THE CHAIRMAN: But in 1933 and 1934 the pound had gone up a little.

PROFESSOR UPGREN: The figures for the last three years -- if you were referring to these, are the same as saying the pound was a little above normal, \$4.86 to \$4.95.

THE CHAIRMAN: What was the pound worth in 1934?

PROFESSOR UPGREN: Minus 2.37. Depreciation would mean that the pound would be worth roughly 4.96 instead of 4.86.

THE CHAIRMAN: Not in gold.

PROFESSOR UPGREN: In relation to the Canadian dollar.

THE CHAIRMAN: No; I mean in gold.

PROFESSOR UPGREN: In gold. Since the British pound is not based on gold now and the United States dollar has depreciated by 41 per cent, and since the pound is roughly in line with the old parity -- it is not quite -- we might say, if we want to express it that way, that the British pound is depreciated in gold about 40 per cent. Is that the figure you wish?

THE CHAIRMAN: The actual depreciation of our dollar in 1934 in relation to gold must have been --

PROFESSOR UPGREN: Forty per cent.

THE CHAIRMAN: At least forty per cent.

PROFESSOR UPGREN: That is so.

THE CHAIRMAN: You cannot give the value in gold because that has been departed from.

PROFESSOR UPGREN: The Canadian dollar?

THE CHAIRMAN: Yes.

PROFESSOR UPGREN: We give it a value of 85 cents in 1932. In round figures that would be about fifteen cents. Now, let us turn to table 17 at the bottom of page 24.

This table merely measures the wheat production in Canada in the prairie provinces. It gives the number of bushels of wheat and the production in the various provinces by percentages. At the very bottom is given the value of the wheat exports, including flour. On page 25 we give the value of the wheat exports of the three prairie provinces in table 19; the estimated increase in value of wheat exports that would have resulted if the Canadian dollar had been kept in line with the Australian pound. In the final set of figures we give a calculation of the benefit to the prairie provinces had the Canadian dollar been kept in line with the currency of its chief competitor. We give a figure of 46.8 which has been referred to as \$47,000,000. I should like to read the material at the bottom of page 25: We may now point out that had Canada

kept the value of her currency in relation to the British pound at the same level that obtained in Australia, wheat producers in the prairie provinces, for the six-year period ending with 1936, would have received an average annual increase of 47 million dollars for that part of their wheat that was exported. This assumed average annual excess of 47 million dollars is almost three times the total taxes of 16 million dollars collected by the three prairie provinces in 1934, and exceeds the 45 million dollars collected in taxes by all of the municipalities in Manitoba, Saskatchewan, and Alberta in 1933. The importance of this potential source of increased income to prairie province producers of wheat may be emphasized by pointing out that a high proportion of their income is derived from the sale of their products to the United Kingdom. Eastern Canada, on the other hand, sells much more largely to the United States, though the total volume of its export sales represents a much smaller share of its

total income. Out of these figures I would suggest that the interest of the prairie provinces would have to be kept, as we have used the expression, in line or alligned with their principal competitors, whether that interest was desirable for the rest of Canada or not. But since a common money cannot be adjusted to suit the interests of various parts of the country, it is bound to impinge much more heavily upon western Canada than eastern Canada. I have two more tables to which I should like to refer. I should like to point out that if there are questions I shall be try to take care of them.

I should now like to refer to the material found in the middle of page 26. This material, may I say, is of a negative character. It is an exploration of Canada's balances of payments. Some of the items enter into it in comparison with Australia and New Zealand. We try to show if there is anything very greatly different about Canada's balance of payments that may be affected by different currency policies than obtains for the other two countries. There are only two tables to which I should like to refer, if I may. We shall now turn to page 21, "Note to tables G. H and I" I have referred to the cross channels of trade and I should like to refer to the figures here to illustrate the point, in the period 1930 to 1936. The table in the middle of the page gives the total and average exports of wheat and wheat flour, barley, rye, and oats for the prairie provinces, 1930 to 1936. For the period the total exports were 1304.3 or \$1,340,000,000. The annual average is \$186,000,000,000. The exports of the prairie provinces are \$172,000,000, a little better than 90 per cent of the exports of grain. The exports to the United Kingdom amounted to 103; to the United States 12; to other countries, chiefly Continental Europe, 56.7.

These are millions of dollars.

Then in the second part of the table "Total and average exports of nickel, zinc, lead, copper, wood pulp and newsprint paper for the non-prairie provinces, 1930 to 1936," and we observe in terms of the annual average \$180,000,000 worth of exports by Canada, out of which non-prairie provinces exported, \$177,000,000. Out of this amount \$31,000,000 went to the United Kingdom, \$116,000,000 to the United States and the remainder to all other countries. If I have referred to the cross channels of trade it was to these figures I intended to make reference to illustrate how the west sells to western Europe and to the United States.

I should like to turn back to page 26 to indicate the nature of some of the tables. Table 26 gives data covering population of countries; capital invested by foreigners; capital invested abroad; net indebtedness of Canada, Australia and New Zealand. We then give the net interest and dividends paid, to indicate the amount of money paid abroad on indebtedness that Canada must raise which, of course, is affected by currency policy. We then give the average rate paid. There is a suggestion here, although not too much reliance should be placed upon balance of payment figures. In 1928 the rate paid by Canada was 4.5 per cent; in 1932 4.5 per cent. By 1932 Australia's rate declined and New Zealand's declined as well. We next give the national income, and the net interest and dividends paid (1) as percentage of national income; (2) ^{per} capita; (3) as a percentage of balance of payments receipts. The table indicates that a per capita rate for Canada increased from \$18.12 in 1928 to \$20.75 in 1932. In Australia the figures are \$26.76 in 1928 and \$29.78 in 1933. In New Zealand the figures are \$28.76

in 1929 and \$27.62 in 1932. So that if currency policy of depreciation does cost more to service debt paid across the line, presumably that policy is as difficult with Australia as New Zealand, who met the problem as it might have been met if Canada had faced it.

I shall now turn to table 23 which is found on page 30. It is sometimes said that Canada's peculiar trade position with the United States is the reason for following a currency policy in line with theirs. The position is that Canada may have large balances to pay in the United States. The figures given on this page indicate receipts that Canada received from United States tourists as well as from all tourists. This table is given to indicate that the receipts from tourists are comparable as purchases with these receipts that come from goods shipped in freight cars. The table on page 31 is the one to which I referred a moment ago, but I should like to refer to it again. Perhaps it would be well if I read the two paragraphs which precede the table:

When a country decides upon a depreciation of its currency, the implementation of that policy may require the purchase of foreign currencies, offset by the sale of its own domestic currency. An outstanding example is that of New Zealand, which by 1934 acquired, in addition to earlier holdings, no less than 44 million pounds in sterling assets and sterling bank deposits from its sales of New Zealand pounds at the depreciated rate decided upon.

Table 24 gives in brief form the total gold reserves and foreign assets of banks in Canada, New Zealand, and Australia. As a matter of secondary interest, indexes of the wholesale price levels in these three countries are also given. The data are for 1928, 1930 and 1933 or 1934. It will be seen that from 1928 to 1933 total gold and foreign banking reserves of Canada were reduced by

more than one-half. An analyses of the three countries is also given. The data are for 1928, 1930, 1933 and 1934. It will be seen that from 1928 to 1933 the total gold and foreign banking reserves of Canada were reduced by more than one-half. Now, may I turn to the figures? In 1928 the total reserves in gold and foreign assets amounted to \$309,000,000. By 1933 that amount was reduced to \$139,000,000. We observe that no figures are available in respect of New Zealand for the years 1930 and 1933. In 1928 a figure of \$100,000,000 was given as the highest estimate, and the increase to \$221,000,000. With regard to Australia we know that the figure dropped from \$194,000,000 to \$171,000,000, but we notice in 1930 the figure was \$93,000,000. So that if gold was shipped out or if they used up their foreign assets quickly, we may say with considerable certainty that there was a disequilibrium position in the Canadian rate represented by the loss of foreign assets in gold. In the case of New Zealand and Australia we find an accumulation of balances in London, let us say, which accumulation was being paid to offset the transaction of selling the New Zealand pound too low; and it was on this basis, in part, that I would say the danger, if we might use that term, arose, of a competition in the price of wheat in London. As I have indicated when the Central Bank of New Zealand was set up the problem of taking over these balances was considered, and it was found to be a difficult problem.

COMMISSIONER ANGUS: The figures you are referring to show that the rates of exchange on Canadian funds were not mere accidents.

PROFESSOR UPGREN: No; I do not believe so.

COMMISSIONER ANGUS: It was a matter of policy to maintain the exchange, I think, you say.

PROFESSOR UPGREN: The willingness to. I thought you meant the plan -- the willingness to.

COMMISSIONER ANGUS: Did it necessarily prove designed? Could it not result from just letting things take their course?

PROFESSOR UPGREN: It seems to me a policy of letting things take their course. The policy in economics, for instance of laissez faire is a policy, because it is adopted in face of selecting another alternative. When you do one thing you will not do something else.

COMMISSIONER ANGUS: Is it fair to describe the policy of letting things take their course as a policy of maintaining it?

PROFESSOR UPGREN: It seems so, for when the Minister of Finance said he proposed to hold the Canadian dollar exchange the way that they would not be too great a cost, the very declaration of that influenced the rates.

COMMISSIONER ANGUS: There might be that motive. Can you say there was that motive?

PROFESSOR UPGREN: I would not say. I can say that I think to date the only illustration would bring out the point that the holding of the rates would be an influence in that direction. I refer to the willingness to lose a large volume of gold. That would indicate a disequilibrium position in that the dollar was being maintained at too high a value, and in the case of Australia and New Zealand at too low. Therefore the point I wish to bring out is that the further sales by Canada as the result of depreciation would have impinged more on Australia and New Zealand rather than in terms of affecting the price in the British market.

That concludes the material I wish to present. I have gone over it, as I have indicated, rather rapidly. The tables I have given are somewhat of a negative

character.

THE CHAIRMAN: Professor Upgren, this is a very difficult question, and one on which there may be a number of opinions. If anyone has any questions they would like to ask they may ask them now.

COMMISSIONER ANGUS: Professor Upgren, I think your argument is concerned with two things. One is to show the policy of the Canadian government, generally speaking is a policy of currency depreciation. You contend that they might have taken a course which would have benefited the country generally. The second point is you wish to show whether it would have benefited Canada or not it would have benefited Manitoba and the other prairie provinces relatively to the rest of Canada. These are the two things you had in mind?

PROFESSOR UPGREN: I take it we might ~~take~~ the second point around and say that as matters had proceeded they affected much more seriously western Canada.

COMMISSIONER ANGUS: Yes. What I am concerned with is mainly the second paragraph on page one. I have spoken of it already. I refer to the relative facts with regard to Manitoba and the non-prairie provinces. You give figures of 22 per cent and 10 per cent -- on the average 10 per cent.

PROFESSOR UPGREN: Yes.

COMMISSIONER ANGUS: What I want to do now is suggest there are perhaps two other things to be taken into account and one arises from your figures. I assume the exchange depreciation, if it had occurred, would have benefited the tourist traffic very considerably.

PROFESSOR UPGREN: Favourable for Canada.

COMMISSIONER ANGUS: In what way?

PROFESSOR UPGREN: The Canadian dollar would have been somewhat cheaper and presumably would stimulate the tourist trade, would it not?

COMMISSIONER ANGUS: More Americans would come here?

PROFESSOR UPGREN: Yes.

COMMISSIONER ANGUS: And fewer Canadians would go to the United States.

PROFESSOR UPGREN: The tourist trade is a case where we are not certain of the reaction; but presumably there would be a stimulation.

COMMISSIONER ANGUS: Assuming the Canadian dollar was worth fifty cents of the American dollar because of the depreciation.

PROFESSOR UPGREN: I would suggest that to be rather extreme.

COMMISSIONER ANGUS: Would it not be fair to take into account many of the benefits that the other provinces might have received and Manitoba, of course, to some extent? I refer now to the increased receipts from tourists.

PROFESSOR UPGREN: I agree; as you will realize, it would be splendid if we could have the balanced position so we would know how much each tourist spent in each province. You are quite correct in that regard.

COMMISSIONER ANGUS: I agree it is vague. It would not be something that would go to offset, shall we say, the gains that Manitoba would make from depreciation, or the losses Manitoba would suffer. The other provinces would have more interest in the tourist trade perhaps. They would have more to gain than the west. The other point is a little similar, and that concerns gold production. Gold I suppose is the extreme example of something that has a

world price. Therefore, would you not have to count the additional income in Canadian dollars resulting from depreciation applied? Would you not have to apply it to the whole volume of gold production, and not only to gold exported?

PROFESSOR UPGREN: Yes.

COMMISSIONER ANGUS: That again would help the gold producing provinces.

PROFESSOR UPGREN: Yes.

MR. PITBLADO: Before Mr. St. Laurent asks a question I should like to clear up one point in regard to a question asked by the Chairman. The Chairman asked a question if during the holding policy of our grain in Canada more had been put in the market, the price of wheat might not have gone down. I should like to ask you if your figures were not based on what was sold, not what might have been sold? You are using only what actually was exported, and the price that was received for what was exported during that period. Am I not right in that?

PROFESSOR UPGREN: Yes, the export price.

MR. PITBLADO: On what was sold.

THE CHAIRMAN: We are seeking to establish the cause of the loss to the province of Manitoba by reason of the pursuit of a particular monetary policy.

MR. PITBLADO: Yes.

THE CHAIRMAN: There are so many assumptions, and necessarily so. No one can speak of facts that do not exist. You must assume, but there is difficulty to arrive at any basis. This is what occurred to me: Assume the dollar had been depreciated so that the farmers' return would have apparently been larger, would there not have been a larger volume of Canadian wheat sold?

MR. PITBLADO: Yes; that might be true.

THE CHAIRMAN: Would it not have gone into the market?

MR. PITBLADO: The point I was trying to make is this: Professor Upgren was not speaking of possible sales. He took only what was actually sold to get those figures. The sale was made at Liverpool prices. I thought perhaps I might say that in answer to what you, Mr. Chairman, said that when Canada was selling at the Liverpool price they were holding for higher than the Liverpool price. It would be pretty hard to tell whether any more would have been sold if we had depreciated our dollar, because Canada had adopted a holding policy and was holding large surpluses off the market. The point I wish to make is the question you asked was quite foreign to their brief. They were dealing only with what was actually sold. Professor Upgren dealt only with what actually had been sold and exported at a price when Canada was prepared to accept sterling money. If that had been received by the farmer in depreciated Canadian currency, the people who sold would have received, as Professor Upgren states, about twenty per cent more, if the Australian plan had been followed. I wish to clear up that point. I do not think Professor Upgren was considering or discussing the point that was in your mind, Mr. Chairman, because it was a little foreign to the point he was particularly making. There might be something in it. The holding policy that Canada had adopted might perhaps be discussed later but I do not think it was the present intention to discuss it at all. Professor Upgren was considering what was actually sold or offered for sale on the world markets,

PROFESSOR UPGREN: I take it the price in Liverpool

would not make any difference; but the policy in Canada did. Wheat was being held in Canada, and as a result the price in Canada went down that year.

MR. PITBLADO: There would be no difficulty in selling wheat because you did not have a depreciated currency.

PROFESSOR UPGREN: No.

MR. PITBLADO: It was not the affect on the British market, it was the effect in Canada, perhaps as much a psychological condition as anything else.

PROFESSOR UPGREN: Yes; but you did not try to increase the farmers' return by the currency policy referred to. You might refer to some other alternatives, and these other alternatives are what I refer to as damming up the surplus.

MR. PITBLADO: Damming up here.

PROFESSOR UPGREN: Yes, that is right.

Later submissions will show that you have sometimes a choice whether you wish to use currency policy or other methods. Later submissions will show how little was done in terms of the other alternatives.

THE CHAIRMAN: Mr. St. Laurent have you anything to ask?

By Mr. St. Laurent:

Q. Dr. Upgren, I must apologize to you, because I am not an economist. If I have understood anything from this presentation it is what might have happened to benefit the grain farmer in Manitoba had the Canadian currency during the period under discussion been on a level with Australian currency? A. That is correct; and I might point out that sometimes other areas will ask certain aids that would put it on an effective competitive basis.

Q. Now, if I understand your tables on pages 22 and 23, they show that instead of there being an active policy there

appears to have been a policy of laissez faire?

A. May I take one exception to the laissez faire? Such statements as the Minister of Finance may have made at any time as to what they desired to do I would take to be a part of policy.

Q. There would be two things: The statement of the Minister of Finance that he considered it desirable that the Canadian dollar did not get too far away from the American dollar because of debt services, and then what resulted from the actual purchasing and sales internationally that were made? A. Yes.

Q. Because these tables show that the relation between the Canadian dollar and sterling varied, fluctuated, as, I suppose, the natural consequence of the volume of trade. A. Yes.

Q. Well then, when you refer to the monetary policy and to maintaining the dollar and the various expressions that are used on several pages of the brief in that connection, what you had in mind was the declaration of the Minister of Finance as to what he considered desirable and then the effect of there being no active steps taken to do anything to let the dollar find its own level? A. Subject to the exceptions I have referred to.

Q. And that is the statement of the Minister of Finance as to what he considered desirable? A. Both ways -- the statements that may have been made and not made.

Q. I am not referring to one only; but whatever may have been stated as desirable, and the fact that nobody did anything to bring around some other result. That is it?

A. That is correct.

Q. Would not the policy of doing something to depreciate the Canadian dollar in its relation to the English pound or

in relation to the American dollar be a daring thing to venture upon? A. I do not think so. I refer to the fact that the foreign exchange funds of Canada declined. I would think the decline of these funds might be the source of some danger. I would guess that someone would normally hold a certain volume of funds -- \$300,000,000 would be appropriate. Normally they would hold that, and not let them fall to a very low figure. Someone was willing to let them fall.

Q. Who are these "they" to whom you are referring?

We did not have any Central Bank at that time. A. It is just theory; and to establish the equilibrium rates they would not lose any of these funds. That would be the normal rate of balance, you might say, where there was nothing attending to offset them.

Q. Let us talk about facts once in a while and contrast them with theories. As a matter of fact the Bank of Canada did not commence to operate until the month of March, 1935? A. Unfortunately I did not read the section of the brief. I refer to the fact that they were not functioning at that time.

Q. There was no Central Bank in Canada at that time. There was no Central Bank before the month of March, 1935. Is not that so? A. Yes.

Q. I take it from the brief that you state the manner in which the Australian currency was assisted to get to this low level in relation to the English pound was by having someone willing to sell Australian pounds as freely as they might be demanded at the price fixed? A. That is so.

Q. So that here in Canada someone would have had to have undertaken to sell dollars at such a price in sterling

as would have meant \$6.50? A. Yes.

Q. To the pound? A. May I point out the question of the sales to maintain currency at a low value may not be needed because of psychological effect even where there is no transaction.

Q. From your brief I understand that in Australia the banks do this on request and they receive full indemnity from the government. Was this full indemnity obtained from the government? A. Presumably it would mean as it did in the three cases in Great Britain prior to the world war when the gold standard was suspended, or rather a suspension of the issuance of currency, and that the government would make up any loss that may result.

Q. From this speculating in foreign exchange? I will withdraw the word "speculating." From the selling of foreign exchange at a low price? A. Yes.

Q. They would be indemnified by the government. The banks would be indemnified, or whoever they may be, who sold the Canadian dollar at the low prices? A. Yes.

Q. I gather from reading the brief that the Australians principal customer was the sterling monetary system?

A. Yes, that is right.

Q. Whilst Canada had two principal customers? A. Yes. two channels.

Q. The sterling system and the American dollar? A. Yes.

Q. These were the two principal customers? A. Yes.

Q. Now, I see no reference in the brief dealing with the Australian situation that would indicate to us whether they were paying on a three-way bond. Do you know anything of that? A. I believe not. I could refer briefly to an article in a magazine -- I have forgotten the author -- it is in the May 1935 issue of the Canadian economic journal discussing the question of the payment of bonds. That article refers to the Canadian experience and compares

the Australian foreign debts with Canada, pointing out that when Australia sells a bond issue in the New York market it tends to stay in the New York market. It is not moved back and forth. When Canada sells in the New York market the bonds are moved back and forth and I believe that has been referred to in connection with the need for the two or three-way bonds.

A. As a matter of fact you will agree with me that there was at that time probably more than there is now -- at least, I hope more; I hope they are less now -- two and three way bonds that were being held by Canadian investors?

A. That is right. You are asking questions.

May I make a comment? Q. I am just stating that as a fact. It is so, you will agree. If a Canadian borrower had issued bonds for millions of dollars at a rate of interest of $5\frac{1}{2}$ per cent, with his interest payable optionally in Canadian or New York funds, and the policy had been adopted to bring the Canadian dollar 25 per cent below sterling, it would probably reach something between 50 or 60 per cent of the American dollar at some period around 1932? A. Yes. Eighty-five cents, not quite that low.

Q. But the Canadian borrower would have had to pay instead of $5\frac{1}{2}$ per cent something like 7 or $7\frac{1}{4}$ per cent on his indebtedness, if the holders of these bonds choose to demand the American funds? A. That is right.

Q. His alternative would have been, instead of paying \$65,000 to pay something between \$70,000 and \$75,000 or default? A. Either pay or default.

Q; And we do know that there was a large amount of Canadian indebtedness that was expressed in obligations varying optional payments? A. New Zealand, for instance

maintained the same principle without defaulting.

Q. Now, if it were considered just for the government to guarantee the banks who were undertaking dollars at a depreciated price, / ^{would it} have been equally just to undertake to indemnify those who had millions of dollars worth of bonds and who had to pay \$20,000 or \$50,000 more in annual interest rates than they otherwise would have paid?

A. That is an aspect we have considered if I may answer it in more extended detail. Canada in her dealings makes two or three-way bonds. May I point out the implication attached to Canada's making the two or three-way bonds, because as you have indicated, that brings up --

Q. Professor, will you let me ask the question? You are going to enlighten us, and I am going to be very critical of the enlightenment, but will you first of all answer the questions and then give us your explanation of the theory? The question is a policy of that kind would have transferred from one Canadian citizen to another Canadian citizen a certain amount of money. A. The question cannot be answered in that way. It depends on who holds the bonds.

Q. Yes. Assume the Canadian holder of a bond payable in that form demanded payment. That would have transferred a certain amount of wealth from the debtor to the creditor. I am asking you is that something which would have been appropriate for public authority to provide for and to indemnify? A. It seems to me to be a matter for the public authorities to decide. They indemnify the railroads and banks. I do not know. I want to suggest --

Q. In fairness, it would at first blush look as if they should, would it not? A. It would look as if they should not have a policy which makes possible a demand of a

premium.

Q. Theories are all very nice. However, we have to deal with facts as we find them. A. May I now proceed to answer it?

Q. You agree that we would be up against the facts?

A. It is a very quick recital of facts, yes.

Q. These facts created a situation where the government through the depreciation of Canadian currency would have affected the relations between one Canadian and another Canadian in a very substantial way? A. Certainly; the question is self evident.

Q. In a way rather similar to the thing to which the Australian government provided indemnity to these banks?

A. That is right.

Q. Now, you, I believe, stated on page 7 of the brief that after 1931 the level of the Canadian dollar was maintained. That, I gathered, was by this declaration of desirability by public officers and the absence of any active policy to the contrary? A. Yes.

Q. Now, I shall be glad if you will just give me a little --

A. I should like to make this explanation: New Zealand when they depreciated their external debt had the same problem of the high rate. This analysis is familiar, I assume, to members of the Commission. They commenced with the policy of exchange depreciation. There is a further policy that may grow out of it. It does not have to. But internal credit expansion brings about lowered interest rates, substantially lowered. That perhaps was brought about in many countries in the world. Perhaps as far as western Canada is concerned to the very smallest extent. In the west the lowered interest rates did not come in as the exchange premium rose.

Various methods can be followed to reduce debts and to lower the rates of interest to a very large extent and may fully offset the increased cost of exchange.

Q. There has been a lot of interference with currency and other channels of business exchange in the United States in the last three or four years? A. Yes, there has.

Q. And there is some division of opinion as to the beneficial results resulting from what has been done?

A. Division of opinion as in everything else.

Q. I understand the general outline of this picture is that had the government brought about by active measures, including such indemnification as might be required to depreciate the Canadian dollar on a parity with the Australian pound the grain producers of Manitoba might have received something like \$6,000,000 a year more for the quantity of their grain which was actually exported?

A. That is right.

Q. And are you suggesting that this \$6,000,000 would be net increase or the gross increase? A. It would be the increase we have referred to; the farmers gross income increases by that amount.

THE CHAIRMAN: I am afraid we shall have to continue this in the morning. We shall adjourn now and resume at 10.30 in the morning.

(The Commission adjourned at 4.30 p.m.
until 10.30 a.m. Tuesday, November 30,
1937.)

ROYAL COMMISSION ON DOMINION PROVINCIAL RELATIONS

REPORT OF PROCEEDINGS

Vol. I. Pt. 2

NOV 30 1937

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WINNIPEG, MANITOBA, NOVEMBER 30, 1937

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

 WINNIPEG, MANITOBA, NOVEMBER 30, 1937

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Law Courts, Winnipeg, Manitoba, on Tuesday, November 30, 1937, at 10.30 a.m.

PRESENT:

HON. NEWTON W. ROWELL..... CHAIRMAN

DR. JOSEPH SIROIS	}	Commissioners
JOHN W. DAFOE, Esq.		
DR. ROBERT ALEXANDER MacKAY		
PROFESSOR HENRY FORBES ANGUS		

Commission Counsel:

Louis S. St.Laurent, Esq., K.C.

Secretariat:

Alex. Skelton, Esq.	Secretary
R. M. Fowler, Esq.	Legal Secretary
Wilfrid Eggleston, Esq.	Assistant to the Secretary
Adjutor Savard, Esq.	Secrétaire Français

FOR THE MANITOBA GOVERNMENT:

Honourable John Bracken,	Premier
Honourable William J. Major,	Attorney General
Honourable Stuart Garson,	Provincial Treasurer
John Allen, K.C.,	Deputy Attorney General
Isaac Pitblado, K.C.,	Counsel

FOR THE PROVINCE OF BRITISH COLUMBIA:

Senator J. W. Farris, K.C.,	Counsel
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FOR THE PROVINCE OF ONTARIO:

D. W. Lang, K.C.,	Counsel
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FOR THE PROVINCE OF SASKATCHEWAN:

Honourable T. C. Davis, K.C.,	Attorney General
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Law Courts,
Winnipeg, Manitoba
November 30, 1937.

MORNING SESSION

The Commission met at 10.30 a.m.-

BY MR. ST. LAURENT: (Of Professor Upgren):

Q. We were discussing, when the Commission adjourned last night, this picture that tended to show that had the Canadian dollar been depreciated to 20 per cent below sterling, it might have meant on the quantity of grains exported, something like \$6,000,000 to the Manitoba farmers and producers?

A. I would like to put it this way, that regardless of whether it was a policy or not, the course of events as they followed weighed heavily on the west.

Q. And the result of the calculations made in the brief would show that it was to the extent of \$6,000,000? A. I would like to put the answer this way. We have attempted to measure the thing in terms of one syllable, or better perhaps, in the short space of twenty-five of these conclusions; and we believe that an extended analysis would show that we attempted to take in every qualification; and if considered in complete detail, it would show that the west bore the brunt of the course that did prevail. Contrasted with Australia, they attempted in that country to distribute the burden over more sections of the community.

Q. I did not intend what I was saying as a question. There is \$6,000,000 mentioned here, is that not? A. Yes.

Q. That \$6,000,000 is mentioned as being the gross number of dollars over those that would have been received on the exports had the Australian policy been followed? A. It is not a gross figure.

Q. Is it a net figure? A. It is a figure only on the exports of grain sold abroad.

Q. But it is a gross figure on those exports of grain?

A. Of grain, but it is not a gross figure to the farmer.

Q. Would there not have to be, or might there not have to be deductions from that figure?

A. The figure would first have to be increased, and then there would have to be some deductions from that figure.

Q. If the cost of producing increases, that would be a first deduction, would it not? A. You first have to increase it to allow what the farmer would get not only for what he exported but for domestically sold grain.

Q. What proportion of the grain domestically sold do you estimate would have been enhanced? A. The price of the domestically sold, I take it, would have had to be the same price as the world price.

Q. What proportion would that be? A. The proportion sold abroad was about 54 per cent; the remainder was sold at home, or the minor part went into supplies and carry-over.

Q. Using these same figures, the first calculation was \$5,300,000? A. That is wheat only.

Q. It would go to something around \$10,000,000 on the 100 per cent crop? A. If calculated for the full crop.

Q. Yes, and if the cost of things purchased increases, there would be a deduction? A. For example, when he purchases things there are approximately half of his costs fixed. On the part that would increase in price, there would be deductions.

Q. This \$10,000,000 that we have now reached would not be provided by anyone outside Canada? A. Part of it, presumably, the \$6,000,000 and the \$10,000,000 which we are using for illustration here, the remainder of these \$6,000,000 and \$10,000,000 would have been provided in part in Canada.

Q. But would not the \$6,000,000 also have been provided in Canada? The purchaser outside would have supplied only the same number of units of his currency. A. We have pointed out that as agricultural prices fall, a currency policy may be resorted to for the purpose of redressing the disequilibrium between agriculture and other sections of

industry.

THE CHAIRMAN: Please answer the question as put. I am very anxious to get answers to these questions.

By Mr. St. Laurent:

Q. Did you not point out on page three of your brief that this additional number of dollars has to be provided by some other part, or would have to be provided by some other part of Canada? A. I point out on page three, I believe, that the purchasers of imports--

Q. Yes, the purchasers of imports being persons within Canada? A. That is right.

Q. So this \$10,000,000 would have been transferred from one group to another group within Canada? A. In that sense.

Q. Yes, and to the extent to which the farmer was a purchaser of imports or goods the price of which was affected by world prices, his costs would have been increased?

A. About fifty percent of that, it is generally believed, would have been increased.

Q. Yes. You cooperated, I believe, in the preparation of the submission that is to come next in respect of the tariff. A. That is right.

Q. And in that, as I understand it, the calculation is made on the basis of 55,000 farms for Manitoba? A. Yes, that follows in the next brief.

Q. But the number of farms taken into account for Manitoba is 55,000 farms? A. I believe that is correct.

Q. And the amount of annual expenditure is something over \$1,000? A. I do not recall that figure of \$1,000.

Q. Yes. A. We have not had the next brief.

Q. No., but you had it in preparation. A. I was assisting in its preparation.

Q. And the amount of anything affecting that \$1,000 is cal-

culated on something over \$100. A. It is \$100; that is right.

Q. One hundred and a few odd dollars, but for the purposes of calculation the figure of \$100 is used. So it is shown all through there, that the purchasers of things which are affected by the tariff or by world prices are on 55,000 farms, or \$55,000,000. A. That is right.

Q. And if it were \$100 per farm, it would be about \$5,500,000? A. That is right.

Q. And it is also, I believe, calculated in that brief that the rural population purchases - there is one statement there that it would be \$5,500,000 as far as the rural population is concerned and \$9,500,000 as far as the urban population is concerned? A. I recall that.

Q. So that calculation would lead to the conclusion that there was \$150,000,000 of purchases affected by the tariff or by world prices, and for Manitoba \$5,500,000 and \$9,500,000. A. Yes.

Q. Yes, and if the effect were ten per cent, \$100 per thousand, that would be \$15,000,000? A. Yes.

Q. Now the price used in the calculations in this brief for grains was the Liverpool price? A. It was the export price actually received by Canadians.

Q. The export price actually received by Canadians? A. As Canadian exporters.

Q. And that was the price arrived at by the prices prevailing at Liverpool. A. Yes, there are other prices, but it is mainly the Liverpool price.

Q. But to get the grain to Liverpool ocean freights have to be provided? A. That is right.

Q. Those ocean freights are usually, are they not, paid for either in sterling or in cents arrived at by calculations from sterling? A. Depending on who carried the freight.

Q. But the major portion of the Canadian grain trade is

carried in bottoms with respect to which the freight has to be provided in sterling or its equivalent? A. That is right.

Q. There would have been some addition there? A. The cost of shipping the grain is but a minor proportion of the price of grain. I was just going to ask, can you tell me what the average during those years was? A. In the presence of Canadians, I would be inclined to defer to those who follow wheat more closely than I do. But from the price in Fort William of 54¢ we take off 15¢ back to the farm point. That cost is one of the fixed costs that does not rise in proportion to the rise that may take place in the price of wheat.

Q. Can you tell me approximately, when the Canadian dollar is on a level with the pound what the ocean freight amounts to per bushel? A. I recall, although I would not rely on this too strongly, that it was 9¢.

Q. Of course charters are not always available at the same price? A. No.

Q. And I suppose that the price of charters depends to a certain extent on the availability of cargoes travelling both ways? A. Yes.

Q. So we have this \$10,000,000 against which there would be some offsets. You have not calculated just what they would be? We can approximate that, because taking the general rule that half of farm costs are fixed--some costs are almost rigid, they do not fluctuate--and freight rates do not fluctuate to the same extent as other prices, and so I would say that the increased costs to the farmer would be about on half of his purchases.

Q. The purchases of the farmer affected by world prices have been estimated in the other brief at about \$55,000,000? A. Yes.

Q. And the effect resulting from the tariff and world prices has been calculated at about \$5,500,000? A. Yes.

Q. If there had been a depreciation of 20 per cent in the Canadian dollar, that would have meant just about the same figures? A. Yes. You are referring to the \$6,000,000?

Q. Yes. A. Yes.

Q. At 20 per cent it would have meant \$11,000,000 on \$55,000,000 or \$5,500,000 if it was only \$10 per thousand dollars of purchases? A. Yes.

Q. And if the effect had been to the extent of 20 per cent on a thousand dollars of purchases, it would have meant \$11,000,000 additional cost? A. That is right.

Q. Will you now please turn to page four of the brief to the first paragraph, about one-third of the way down, where you speak of "export balance." What is meant by export balance? Is it the same thing that is meant on page 28, where you speak of "merchandise export balance"? A. Whereabouts on page 28?

Q. In Table No. 22, the first line, merchandise export balance, \$93,000,000. A. You are referring to Table No. 22?

Q. Table No. 22, page 28.

THE CHAIRMAN: What is the reference on page 4.

MR. ST. LAURENT: It is in the seventh line of the first paragraph, "export balance,"

By Mr. St. Laurent:

Q. Are those two the same thing? A. The Table refers to the merchandise export balance.

Q. Merchandise export balance? A. Yes.

Q. Then that does not take into account the tourist services? A. They are indicated in the next line.

Q. Yes, but as another item? A. That is right.

Q. Did these tourist services, as shown in this Table No. 22

on page 28 go to provide a large proportion of the foreign debt service? A. In some periods.

Q. Yes, in the periods dealt with in this brief? A. In varying proportions.

Q. But still very substantial? A. Very substantial.

Q. And there is a table showing what the proportion is. You have a table showing how the balance of the service debt was provided for in those years, so much out of merchandise exports, so much out of tourist services, so much by capital?

A. Would it possibly be on page 26, Table 21?

Q. No, I think it is in the Appendix. But perhaps we do not need it now. You probably remember the contents of that table. It showed that the balance to be provided was something over \$200,000,000, of which about \$60,000,000 came from the export balance of merchandise, and \$72,000,000 from tourist services? A. In some periods.

Q. Did you calculate what proportion of the service of the debt was provided by Manitoba by means of tourist services?

A. I know there are some figures and expenditures by provinces, but in terms of exports by provinces I do not believe we have the data and we did not calculate it.

Q. You did not calculate it? A. No.

Q. I find in the Year Book for 1936, for instance, that the tourist expenditures were calculated at \$255,000,000, and Canadian's expenditures outside their country at \$155,000,000 leaving a net balance of \$100,000,000. A. Yes.

Q. And of the \$255,000,000, \$159,000,000 was the estimated expenditure of those who came in by automobile, and \$96,000,000 the expenditure of those who came in by other means. Then I did find the segregation by provinces with respect to those who came in by automobile. Of the \$159,000,000, the non-prairie provinces provide \$155,000,000 and the prairie provinces \$4,000,000. Would that appear to you, from your knowledge of the economic situation generally, as being

something typical of that period? A. Yes, I think so.

Q. You think it would be. So the bulk of that debt service provided by tourist services would come from the non-prairie provinces? A. As your figures indicate.

Q. Yes. These tourist expenditures have to produce a given number of American dollars to service that portion of the debt held in the United States? A. If you can say that certain funds are used to pay debt.

Q. The Year Book points out that in those years the expenditures of tourists constituted an invisible export of greater value than any single commodity and that it enabled the balance of trade with the United States to be maintained. A. That is right.

Q. Then with a depreciated dollar it would have required a much greater volume of tourist services to provide the same number of American dollars. A. That is right.

Q. Yesterday Commissioner Angus put the question to you whether or not your policy of putting the Canadian dollar 20 per cent below sterling would not have meant a fifty cent dollar in New York, and you said that would be extreme, but do not the calculations for 1932 show that would have been the result? A. In 1932, an extreme year, but only in 1932.

Q. Only in 1932, but in that extreme year it would have meant a fifty cent dollar as compared with the American dollar. A. Yes.

Q. If there were benefits to be derived from going that far, going to a fifty cent dollar, why would there not be even greater benefits from doing as France did, and going to a ten cent dollar? Where do you stop when you start off getting benefits from currency depreciation?

A. I think the answer to that is reasonably clear in terms of banking control and governmental control. Under a policy

of depreciation in the United States and in Canada, prices have not risen. Four years have passed and we have not had inflation. I would like to point out again that certainly a lower priced dollar would enlarge the tourist traffic and that would benefit other sections.

THE CHAIRMAN: Please answer the question. I understand that Mr. St. Laurent's question was this: "If it would benefit the prairie provinces to have a fifty cent dollar, would it not, in your opinion, have been of greater benefit to them to have a twenty cent dollar or a ten cent dollar?"

PROFESSOR UPGREN: Manufactured goods prices fall rather slowly. Let us say, for the purposes of illustration, in order to answer the question, that the prices of manufactured goods fall from 100 to 70. Farm prices fall much more sharply; let us say, taking Canadian figures, from 100 to 40. You alter it enough when you attempt to redress some of that disproportion. You do not try to carry it beyond restoring of the unbalance between agriculture and industry.

THE CHAIRMAN: Would it have benefited the farmers of Manitoba, in your view, if the dollar had been reduced to twenty cents ?

PROFESSOR UPGREN: You must make one move and see what happens. You take the first one and you see what happens. You have that starting point, that farm prices fall too low, and you attempt to restore some fair measure of balance. It is like a game of chess--

THE CHAIRMAN: Is not the whole thing a game of chess? Where can you say the limit should be, that the dollar should be at eighty cents, seventy sixty, forty, , thirty, twenty, or ten cents.

PROFESSOR UPGREN: In the course that was followed the results of the depreciation bore heavily on the west.

THE CHAIRMAN: I am asking you, where do you draw the line? Why do you say a fifty cent rather than a forty cent dollar or a thirty cent dollar ?

PROFESSOR UPGREN: You attempt, in order to draw the line, to accept some idea of a fair price relationship below the line that is called parity prices, a concept that is widely referred to, as giving the farmer purchasing power for the goods that he buys, at prices that are reasonably fair or in relation to what prevails in a normal period. Therefore the measure of the extent of the depreciation would only be that amount. It would not go down to 20 per cent, presumably, to restore a fair equitable relationship in prices. Therefore you are able to determine the limit, and the limit, as I say, would not be down to 20 per cent, I am sure.

THE CHAIRMAN: Suppose you did bring it down to 20 per cent, would that in your opinion have doubled the benefits to the farmers of Manitoba ?

PROFESSOR UPGREN: The assumption seems so far from reality--

THE CHAIRMAN: Your own assumption seems far from reality to me, that frankly I want to test it.

PROFESSOR UPGREN: If all the things remain unchanged and you depreciate to forty per cent, the purpose of depreciating to 40 per cent is to restore the balance, and it would not follow that you should try to raise agriculture prices away beyond parity with manufactured goods prices.

THE CHAIRMAN: Did not President Roosevelt embark upon a policy, publicly announced, of endeavouring to put the dollar on a determined basis, to try and get the dollar to bear a relationship to the value of commodities rather than to gold.

PROFESSOR UPGREN: He tried to get stable prices, yes.

THE CHAIRMAN: In relation to commodities. Has he succeeded in doing so?

PROFESSOR UPGREN: About half-way. If we take the 1926 price as 100, prices fell to the middle sixties, and they have now been restored to the middle eighties.

THE CHAIRMAN: I am not asking the question for the purpose of making a criticism of President Roosevelt's policy. I was simply trying to bring out how extremely difficult it is for any government to control these factors which you are treating as if they were absolutely controllable.

PROFESSOR UPGREN: It is certainly difficult to control them, but we can register the effects, and we say we can produce certain results; and there is some reason to believe that there can be some degree of control. Let me illustrate by an example that is used frequently in my own field. A navigator who is trying to get a ship into port cannot plead adverse winds or currents as an excuse for his failure to bring his ship to port; for the means of navigation being what they are indicates that he does have some measure of control over these adverse factors, and therefore he is expected to arrive at his destination. There is not a perfect control through monetary policy, but there is some element of control, and if that element of control can produce a fair measure of results in the right direction we can attempt to use it as Australia and Great Britain used it and so something without asking whether it would or would not work.

By Mr. St. Laurent:

Q. Your investigations have not put you in a position where you care to give an answer to what would have hap-

poned with a ten cent dollar? A. A ten cent dollar, presumably, following the reasoning we have been discussing, would have lifted agricultural prices. The only point we have made is that agriculture prices fell more than any other set of prices, but a ten cent dollar would be carrying it far beyond what was required. It is something in the nature of parity that would determine the extent of the depreciation, and I am sure that it would not go down to a twenty cent dollar.

Q. There was a large foreign debt that had to be provided for in foreign currencies. A. That is right.

Q. Have you ascertained what amount of the debt of the province of Manitoba had to be provided for in foreign currency. A. I have not.

Q. You have not? A. No.

Q. In comparing the benefits and disadvantages of this fifty per cent dollar, you did not take that into account?

A. I have taken that into account in referring to a distinction between the interest the province would have to pay abroad, and the interest it would pay internally. I have held the benefits, in this calculation, to agriculture at a low figure, acknowledging that there are offsetting burdens that come in.

Q. I am not suggesting that you have not acknowledged that, but I am asking you whether or not you did calculate how many hundreds of thousands or millions of dollars of interest had to be paid that would have required two dollars for one during 1932? A. I have not. We have the figure for all of Canada but not for Manitoba, because monetary policy is not within the scope of Manitoba's control.

Q. Then you have not the amount of the debt of the province of Manitoba that would have had to be provided for at a rate of two dollars for one in 1932? A. No.

Q. Have you the amount of the debt of the municipalities of the province of Manitoba that would have had to be provided for at rate of two dollars for one in 1932?

A. No, but I believe some data is being collected on that which is to be made available.

Q. Then you did not make any calculations based on such figures as those? A. No.

Q. You just made the assumption that internal benefits might offset external disadvantages? A. More than offset.

Q. Without making any calculations? It is your assumption? A. We have this calculation, that the debt service of Manitoba is running in interest to about \$5,500,000.

If we had it down let us say, to one quarter of that, one gets to a figure of less than \$1,500,000.

Q. When you say the debt service is \$5,500,000, is that the debt service for the provincial government? A. The provincial government.

Q. Have you an approximate figure for the debt service of Manitoba municipalities, cities, towns, and rural municipalities? A. That is in a forthcoming brief. I have not the information here, and I do not recall it at the moment.

Q. You do not recall whether it is larger or smaller than the amount of the debt service of the province? A. Roundly the debt of the provincial government is \$128,000,000, but I do not recall the municipal figure.

Q. You say you had the figure of the debt service of Canada. Did you have in mind debt service for all debts owed by the federal and provincial governments, or of any municipalities and public bodies? A. The figure in the balance of payments, which I believe you refer to, is in Table No. 26--the figure of interest and dividends paid, which is from the balance of payments data. The fourth

figure, 188 and 215 million dollars means that the interest and dividends paid externally were those figures. Does that give you the information you want?

Q. Are those figures arrived at by taking the total debt service and deducting from it the total interest received from abroad by Canadians? A. My impression in checking the balance of payments-- I am not familiar with the practice here--is that you can arrive at checks in several ways, then arrive at what seems to be correct in the light of the facts before you.

Q. That does not mean that the total amount of interest payable abroad was \$215,000,000? A. According to the balance of payments published by Dominion sources it could mean that that is the number of dollars to be paid abroad. It is the balance of payments of Canada as a nation, the amount going, one might say, across the line.

Q. And in 1932 that would be \$215,000,000? A. Yes.

Q. And with a fifty per cent depreciation it would have been \$430,000,000? A. Yes.

Q. There is one more aspect of this \$6,000,000 or \$10,000,000 calculation for the grain of those years. On page five you point out in your brief that the trade policy of Australia promoted the creation of a favourable trade balance resulting from such depreciation. That is in lines four and five of your brief. A. That statement is there, but I would like to say with respect to these figures, because a correction is in order, that that is only one of several causes, and there should be added to that the question of internal monetary policy and other factors than the one here.

Q. There is only one mentioned here. A. Others should

be mentioned.

Q. Others should be mentioned as having contributed to the refunding that became possible? A. That is right.

Q. But the favourable trade balance, I think you point out on page seven, results from one of two things, or from a combination of both--restriction of imports and stimulation of exports, or perhaps a combination of the two? A. Yes.

Q. As far as the restriction of imports goes, is that not already accomplished to a substantial degree by the Canadian tariff? A. We turn to that subject in the next brief.

Presumably a tariff would restrict imports.

Q. And the next submission would show that for the farmer producing this grain crop, the restriction of imports resulting from the tariff meant a burden of some five or six million dollars? A. From the tariff?

Q. Yes. A. Yes, that is the figure.

Q. If there had been further restrictions of imports arising out of the currency policy, that would have become an additional burden to the producer of goods for consumption, would it not? A. Yes, the importers, producers, constitute a small portion of the total producers.

Q. But the submission which comes next suggests that an increase in the price of imported goods reflects itself, or has a tendency to reflect itself also in an enhanced price of goods not imported? A. As to the first part of your question, the \$100, as you have pointed out, was the cost of the purchases.

(Page 153 follows)

That, I take it, would not be so, completely.

For instance, house rents, which are in the nature of domestic goods, do not increase because imported goods increase in cost.

Q. But I am referring specially to goods for consumption.

A. That depends. You have certain goods that are influenced by the price of imports and they are referred to as having their price set internationally; then you have the internal price structure, which is separate from the other.

Q. But the thousand dollars worth of goods taken into account in the next submission do not include rent or anything like that; they are goods for consumption, all of a category that would be most apt to be influenced by world prices.

A. Yes, there are other goods.

Q. If this policy had had as one of its effects the stimulation of exports of grain, would not the offering of a larger quantity of grain have been apt to influence the Liverpool price? A. There are a good many factors that have to be taken into consideration, some of which have been considered. At some period the United States withdrew largely from the export trade.

Q. Yes, but I suppose it is obvious that Liverpool would get more wheat than was required for the needs of the wheat trade? A. But the price in Liverpool may be set by grain that does not go to Liverpool; it may be set by supplies that exist at home. So that the price may have been already influenced by grain here which was not sold to Liverpool. That, I take it, is your point.

Q. In order to dispose of a larger quantity of grain, would it not have been necessary to offer it at some

reduction. A. If you treat the supply as the amount being offered on the Liverpool market and the amount available here for sale, perhaps temporarily, for a short period being withheld, it would already have been affected in Liverpool by supplies at home.

Q. How would I, the Canadian seller, get them to take mine instead of the Australian grain or grain from the Argentine if I do not give them some price concession? What would have brought about their changing from the Australian vendor or the Argentine vendor to me unless I gave them something to induce them to do so? A. It would be very slight.

Q. But it would have required some concession, and this calculation is built up on the assumption that the Liverpool price would not have been affected? A. In several places it is said that it would not have been "substantially" affected or affected in any important quantitative way. Perhaps these qualifications have been overlooked.

Q. It is suggested that the depreciation of currency would have released grain that was dammed up at home.

A. When a nation chooses to aid agriculture there are several alternatives. One may be proper control at home, storing supplies may be another, and still another may be a currency policy. The issue here is this, that the course of action -- perhaps we can substitute that word for policy-- which was pursued weighed heavily upon the west.

Q. Is it your suggestion that the damming up was a result of the course of exchange, or was it the result of some other action taken by the Canadian authorities? A. The action with respect to agriculture is the result of low prices, the correction of which we have referred to in response to a question asked by the Chairman. But alternatives are to be considered, and that may be another

way of doing it.

Q. But what I am asking you is this. You do say that failure to adopt a proper exchange policy resulted in damming up wheat at home? A. You mentioned a moment ago that a price concession had been created by a more favourable exchange ratio; I take it, that is the moving of wheat abroad, and the converse of that would be damming up.

Q. Your assumption was that the exchange that would have made it possible to give such concession as would have been required to displace the other vendors would have let out some of the wheat that remained at home? A. Yes.

Q. There is one other aspect of this matter which I should like to touch upon, and I do not wish to spend more than a few minutes discussing it. I have a few questions to ask in this regard. I am referring to the benefits to eastern Canada. It is stated that the course of exchange which took place greatly benefited Canada. Is not that putting it rather strongly? A. That is the converse. If the course that was followed weighed heavily upon the west, relativity suggests that it must have benefited some other area to have so affected one.

BY THE CHAIRMAN:

Q. But might a particular course of action not have affected all? Might not a monetary policy detrimentally affect the whole? Is it necessary that a monetary policy should benefit one section and prejudice another? Is it not possible to have a policy that would prejudice the whole, and vice versa, one that would benefit the whole? A. I am inclined to think not, my lord. A monetary policy is a national matter falling outside the scope of the government of Manitoba; therefore it results in a common average for the entire country. Economic regionalism,

I may point out, means that a policy impinges quite unequally -- and unavoidably so -- on different areas.

BY MR. ST. LAURENT:

Q. As I understood it, one of the main reasons given was the fact that eastern Canada's market was largely the United States, whilst the prairie provinces market was largely the sterling market? A. Yes.

Q. But if there had been a depreciated dollar it would have been depreciated to the same degree in relation to the American dollar as in relation to sterling? A. Yes.

Q. And if the exports from eastern Canada to the United States would have produced to the eastern Canadian exporter just as large an increase in Canadian dollars as the difference to the producer of grains in the prairie provinces, would not -- A. I see no reason why the west should be concerned; if it benefits another section as well, so much the better.

Q. Your expression, "greatly benefited eastern Canada", is putting the matter strongly because it does not take into consideration the fact that eastern Canadian producers would have received from the American market the same proportion of American dollars. A. That is so.

Q. So that is not one of the benefits so far as the eastern exporter is concerned; he would have received the same benefit from depreciation that the western exporter would have received? A. The same type of benefit, yes, quantitatively.

Q. The same type, and proportionately the same increase in number of Canadian dollars? A. All exporting classes are improved.

Q. But the benefit, if it was a benefit that the eastern producer would have, would arise out of the relation between sterling and the American dollar? A. Yes.

Q. And nothing we could do could affect that relation?

A. Manitoba could not affect any relation; the Dominion could have affected the relation between the Canadian dollar and sterling.

Q. But had it affected the relation between the Canadian dollar and sterling, the necessary corollary is that it would have the same effect as between the Canadian and American dollar? A. Yes.

Q. So that nothing Canadians could do could change the relation between sterling and the American dollar?

A. That is so.

Q. And whether we had a Canadian dollar at one peak or another, the relation would remain the same? A. That is right.

Q. And if the easterner was able to get a price which he would regard as fair, that amount, X dollars Canadian,-- the Canadian producer of grains receiving only sterling -- which meant something less than one hundred cents to the dollar, was something that would not have been corrected by depreciating the Canadian dollar? A. I think I can clarify that by saying that all exporting industries would have benefited.

Q. To the same extent proportionately? A. That is right.

Q. And if it had happened that the situation did not bear so heavily upon the eastern producer as upon the western producer, it is because his market was a market in which the currency was higher than his own, while the westerners market was one in which the currency was lower than his own?

A. Yes, plus the fact that the west exports from the entire ⁱⁿ area while/the east the proportion exported is much smaller.

Q. To take amounts, will you turn to your tables on pages 42 and 44. I would refer you to 42, the third column; that

is the value of share of exports for the prairie provinces, the amount being \$1,206,000,000. That is at the foot of the third column, the total. A. Do you mean the third column giving dollar figures?

Q. The second column of dollar figures. A. Yes.

Q. That is for the wheat and flour and barley and other grains? A. Yes.

Q. For that group of commodities that you compare with the wood products, plus four non-ferrous metals? A. Yes.

Q. Page 44 has, I believe, a tabulation of that same group of wood products and non-ferrous metals? A. Yes.

Q. And the non-prairie provinces portion for the same period would be \$1,240,000,000? A. That is right.

Q. There is a difference of some millions but it is not a substantial amount. These tables bear out your submission that the average value of the grains on the one hand and, on the other, of the wood products and the four non-ferrous metals, is about equal? A. The total amount, that is right.

Q. So that the total amount from the prairie provinces of grains, and the total amount of these six items of export from the non-prairie provinces would have been just about the same? A. Yes, that is right.

Q. On page 16 you make the statement, I believe, that western grain is in the unahppy position of depending, most heavily of all main industries in Canada, upon export markets? A. Yes.

Q. Is not that also putting it a bit strongly? A. I do not believe so, because western Canada lives to the extent of about fifty per cent by wheat alone, and that all moves into the export trade. In other parts of Canada there are areas that are equally dependent upon such markets, perhaps

even more so; but those areas, in relation to the total region, are smaller, whereas, here, the whole province is in that situation.

Q. Here you are dealing with western agricultural produce, and that, you say, depends most heavily on export markets. Mathematically, that is probably correct, but not to the degree that "most heavily" would lead one to believe without looking at the figures. If you turn to the next page, page 17, you will find wheat given as \$149,000,000; then if you take newsprint, wood pulp, planks and boards -- forest products -- you get \$147,000,000. A. May I point out that planks and boards are in part a British Columbia product.

--Q. But they are a commodity, and on the preceding page you are speaking of commodities? A. Yes.

Q. So that these forest commodities total practically the same -- \$147,000,000? A. But if you add the different items you cannot compare all the items coming under the head of forest products with one agricultural product, wheat. You should add other grains and other products as well, such as meat products. Surely, however, you should add other grains.

Q. In this there is wheat flour, \$19,000,000, which would bring the amount to \$168,000,000? A. Yes.

Q. Another group shown here comprises three metals, gold, nickel and copper, the total being \$149,000,000.

A. Yes. The situation so far as gold is concerned is very peculiar.

Q. Yes, but there is something to be noted in that connection. They are not altogether unevenly balanced, and if one were to take the expression "most heavily" as indicating any great difference, one would be a little astray.

A. There is another point to be observed with regard to

that great difference indicated in the term "most heavily". You depend upon export markets in proportion to total production, and that is the point upon which the west rests; because, here, all there is is grain, and grain bears heavily on the export market. There is but one string to the fiddle.

Q. At the foot of page 18 you show the value of the Australian dollar, which you make clear to Canadian readers of this submission, and the £18.3 millions would represent, roughly, \$90,000,000. Of course, to a Canadian reader at that time the pound, which was the basis for that figure of £18.3 millions, was a pound that would be worth roughly \$4 instead of \$5? A. Yes, I am glad to have that brought out. It depends upon whether you value it externally or in relation to Australia.

Q. But this submission goes before the Canadian public, and when speaking of dollars the Canadian reader naturally thinks of his own dollars; and at that time £18,000,000 would have been about \$72,000,000 instead of \$90,000,000?

A. Not to the Australian.

Q. But to the Canadian? A. I do not object to that.

Q. Similarly, it is stated that the average Australian export was 125,000,000 bushels; and \$72,000,000 would mean, instead of fifteen cents a bushel, about eleven and a half cents. A. But that eleven and a half cents has reference to the Australian.

Q. But you are telling the people of Canada that the Australian got so many cents more, whereas in reality, it is only eleven and a half Canadian cents that he got. A. But it was the Australian that got it.

Q. With respect to these tourist services to which reference has been made, I suppose it is quite impossible for anyone even to hazard the wildest guess at what amounts

would have been realized had we had a fifty cent dollar?

A. We know that our data on foreign trade are good, but the balance of payments is not very good as a rule, and too much reliance cannot be placed upon that in comparison with trade figures.

Q. So that it would be the wildest kind of guess to suggest how much American money would have come in and would have been expended by tourists if there had been a fifty cent dollar?

A. Because the figures show a wide variation in tourist receipts.

Q. It would be extremely difficult to bring it into the calculation, though it was during those years, as the statistics indicate, more important than any one single commodity in taking care of the foreign debt service?

A. Yes.

Q. So that there really was no way of estimating in advance what that most important factor would have been with a fifty cent dollar? A. It was most important in some years while in others it was not quite so important; in some years it is half of wheat and sometimes twice as much. That is a tremendous fluctuation.

Q. And with a fifty cent dollar or a dollar worth even less we do not know how many Americans would have taken advantage of the situation? A. I agree.

Q. So that there was in that direction a factor of great importance which it was impossible to gauge mathematically in advance? A. Yes.

Q. The fact is that one would have had to practically jump off in the dark and hope for the best? A. Yes.

THE CHAIRMAN: This whole brief is based upon the assumption that, had our dollar been on a parity with the Australian dollar, something which we do not know and are

not aware of, would have taken place.

HON. MR. BRACKEN: The figures are based upon that assumption, but Dr. Upgren uses the Australian pound in relation to the English pound as an illustration of what would have been done if we had adopted a similar policy.

THE CHAIRMAN: Has it ever been suggested by any public man in Canada, either in the Federal or in the Provincial House, that our dollar should have been put on a parity with the Australian pound?

MR. PITBLADO: I have no knowledge of that ever having been done, Mr. Chairman. If I may say a word on the point which the brief suggests, I do not think that Dr. Upgren is criticizing the policy that Canada adopted in regard to its monetary system. He is rather showing that a certain policy was adopted by Parliament. The suggestion is that a policy which may have been best for Canada as a whole operated, from the monetary point of view, to the disadvantage of the three prairie provinces, and that therefore your body, Mr. Chairman, when considering the economic set-up of the prairies should take into account, if the argument appeals to the Commission, the submission that some consideration should be given this point. For, as Dr. Upgren says, the prairie provinces suffered a disproportionate share of the disadvantage that ensued from the pursuit of the policy that was adopted. That, I think, was rather the line he was following; he was not so much criticizing the policy that was adopted as showing the incidents of the monetary results. I know of a no suggestion having been made by any public man such as Your Lordship has referred to. I do know that in Parliament the question was discussed whether we should tie ourselves to the English pound rather than allow matters to stand as

they were, and there did appear to have been a discussion as to what should be done in that respect in following a midway policy. Perhaps I should not say policy, but a course midway between the American dollar and the English pound.

THE CHAIRMAN: Am I correct in this -- and I am speaking only from recollection. My recollection is that so far as the monetary policy of the government is concerned, it was supported by every federal member from this province with the exception of two C.C.F. members.

MR. PITBLADO: I am not in a position to comment upon that statement, Mr. Chairman.

THE CHAIRMAN: I do not know of any criticism of that policy having been voiced by any member of the federal Parliament from this province. If the policy was one that bore so disproportionately upon the people of Manitoba, is it not surprising that no voice was raised at the time by federal members of Parliament from the province in an effort to secure redress? Our difficulty is this. We are asked to find facts, and there are many assumptions in this brief that cannot be proven inasmuch as they have regard to conditions that did not exist but might have existed under a different set of circumstances. I do not see how we can find facts upon this brief.

MR. PITBLADO: May I say something in regard to your suggestion, Mr. Chairman, that no one objected to this policy. As I view the situation, I doubt whether anyone in western Canada at any rate was in a position to know what the effect of certain monetary policies would have been on the prairies or on any other part of the dominion. As I look back upon it, not only those who were in Parliament

but those outside, reading what was happening, were in a maze as to what would follow from the adoption of this or that monetary policy. I am not putting it too strongly when I make that statement, so that I do not believe that any conclusion can be drawn from the fact that Members of Parliament from western Canada raised no objection to something which they were not in a position either to analyze or to criticize. But the point made here is that whether it was approved by every one or not, when you come to consider western Canada and the prairie provinces, if the facts set out are as they appear they should be taken into consideration. I appreciate what your Lordship has said with respect to the difficulty of dealing with the facts, but if the facts do show that the monetary policy bore heavily upon the prairie provinces then, even though that policy may have been approved by everyone, the facts as submitted might fairly be taken into consideration by the Commission in estimating the economic disadvantages of the west.

THE CHAIRMAN: Who can say what might have happened under quite different conditions?

MR. PITBLADO: In fairness to Dr. Upgren, it must be said that he took Australia as an example of what happened where a different policy was pursued? Am I right in that regard, Dr. Upgren?

DR. UPGREN: Yes.

THE CHAIRMAN: The situation here is different from the situation in Australia. We are right beside the American market. The Australians have one export market, England, while we are faced with a wholly different problem in dealing with the Canadian monetary situation. The situation here is altogether different from anything that

might arise in Australia.

MR. PITBLADO: Dr. Upgren was using it to show what the result had been to the producers of wheat in that country and to the producers of natural products there. There were one or two questions I wanted to ask him, and with your permission, Mr. Chairman, I will put them now.

BY MR. PITBLADO:

Q. Dr. Upgren, when you were talking about the policy adopted in Canada you were using the word policy as meaning, really, a course of action that was followed? A. Yes.

Q. And that course of action being one that only the Dominion Government could have controlled or altered, you regarded it as a policy and so described it? A. Yes.

Q. The Chairman asked a question which I will repeat. Have you ever found, in the debates or discussions that took place at that time, when our monetary policy was being considered -- that is, of following the course Australia had adopted and making it our policy -- any suggestion having been put forward by any Member of Parliament in respect of the matter? A. Mr. Coote, I believe, introduced a motion with regard to the question.

THE CHAIRMAN: Mr. Coote did introduce a resolution, the ostensible object of which was to issue currency to a point that would bring our dollar to a par with the British pound.

BY MR. PITBLADO:

Q. I knew that that question was discussed, but I was referring to any motion having for its object the bringing of the Canadian dollar down to a level lower than the British pound. Do you know of any motion or resolution in that regard, Dr. Upgren? A. If my memory serves me correctly, he discussed the Australian currency as a possibility for

Canada.

Q. I ask you that question because I thought that you had read the address and that he may have discussed the Australian situation.

COMMISSIONER DAFOE: If the discussion in Parliament was based on the proposal that we should do as Australia did, the proposal did not go further than that we should put our dollar on a parity with sterling.

BY MR PITBLADO:

Q. Is that your view, Dr. Upgren? A. I do not recall.

Q. I have no recollection of the matter. When did Australia go off the gold standard? A. Judging by the sharp depreciation, about January, 1931.

Q. You refer in your brief to what you call the Premiers' plan. When did that come into operation?

A. About May, 1932.

Q. You were asked yesterday by Mr. St. Laurent a question with reference to indemnity. I had hoped to see the record this morning to look up that point, about persons having to pay money in a foreign country if a policy of that kind had been followed.

MR. ST. LAURENT: No, having to pay to another Canadian.

MR. PITBLADO: I thought it was to somebody elsewhere. Your question had reference to a payment to another Canadian in Canada.

MR. ST. LAURENT: Yes.

MR. PITBLADO: Was any plan of that kind followed in Australia, Dr. Upgren?

PROFESSOR UPGREN: The only indemnity to which I referred was the indemnity of the Australian government to the banks for carrying out Australia's policy.

MR. PITBLADO: But not paying from one citizen to another; there was nothing of that kind in the plan.

PROFESSOR UPGREN: Not that I recall.

THE CHAIRMAN: Do you wish to have this brief filed as Exhibit No.3?

HON. MR. BRACKEN: Yes, my lord.

MR. FOWLER: It has already been filed, my lord.

THE CHAIRMAN: It discusses a difficult, complicated and controversial question and we shall have our own experts study it.

MR. PITBLADO: May I say, my lord, that Manitoba's case does not rest on this brief. This is only one incident in what is to be presented to the Commission; there are a great many other factors.

THE CHAIRMAN: I think Manitoba has much more substantial ground to stand on than this. Are you going to proceed now with Part IV, Mr. Bracken?

PART IV
THE EFFECTS OF FEDERAL TARIFF POLICY
ON WESTERN CANADIAN ECONOMY

HON. MR. BRACKEN: Part IV will be presented by Dr. Grant, now Assistant Professor of Economics in the University of Manitoba. Those associated with you, Mr. Chairman, will know something about his experience. At different times he has acted in an advisory capacity to the Dominion Tariff Board, the Empire Marketing Board of London, England; the Social Science Research and more recently as Commissioner of the Canadian Wheat Board. He has had associated with him in this study Mr. C.B. Davidson, formerly Statistician for the Dominion Bureau of Statistics and for Cooperative Wheat Producers Limited. This presentation is generally accepted by our consulting economists.

PROFESSOR GRANT: I hope to synopsise this submission as briefly as I can. While the brief quotes extracts from statutes, it attempts to interpret them in as practical a way as possible. I shall largely ignore quotations, except as the Commission may wish to have me refer to them.

This memorandum discusses two aspects of Canadian tariff policy as they affect the economy of the prairie provinces. In Section I we shall briefly trace successive stages in the development of some important aspects of tariff and customs legislation. We shall show the gradual extension of protection up to 1930 and the rapid expansion since that date. This extension was provided in five ways: (1) by expansion of the number of items in the tariff; (2) by raising import duties, both ad valorem and specific; (3) by the application of anti-dumping legislation; (4) by fixing values for duty purposes; and (5) by fixing values for duty purposes in combination with the general application of anti-dumping legislation covering imports that compete with goods made in Canada.

There are also constitutional aspects of tariff legislation which we believe it is our duty to lay before this Commission. We will point out the fact that important tariff-making functions have been removed from Parliament, and that the principle of delegated tariff-making has been established in Canada.

In Section II of this memorandum we shall attempt to estimate the cost of the tariff on western agriculture.

SECTION I. TARIFF AND CUSTOMS LEGISLATION IN CANADA.

The development of the Canadian tariff may be studied through historical references to the Customs Act and the Tariff Act. In a discussion of tariff matters we are con-

cerned with tariff rates, with value for duty purposes where ad valorem rates are in effect, and with anti-dumping legislation as it has developed in Canada. In this memorandum primary consideration will be given to the main features of the Customs Act and the Tariff Act that bear upon the establishment of values for duty purposes.

VALUE FOR DUTY PURPOSES.

Development of Section 35.

In establishing an ad valorem import duty it is first necessary to fix the dutiable value of an imported article. The basis of establishing such values for duty purposes has been the subject of considerable legislative action in Canada over a long period of years. We propose to trace the legislation on this subject from 1867 to the present time.

I will skip that reference to the Act of 1867.

FAIR MARKET VALUE (1883). In the above legislation we wish to call particular attention to the basis of valuation, viz., "such value shall be understood to be the fair market value thereof in the principal markets of the country whence the same were exported directly to Canada."

The terms of this section remained in force until the Customs Act was consolidated in 1883, when the section was reworded. Section 68 of the 1883 consolidation provided that "Where any duty ad valorem is imposed on any goods imported into Canada, the value for duty shall be the fair market value thereof, when sold for home consumption, in the principal markets of the country whence and at the time when the same were exported directly to Canada." From this it will be seen that the basis of valuation in the 1883 legislation remained much the same as in 1867, with the added qualification that the value for duty purposes was the fair

market value "when sold for home consumption." This reference to "home consumption" was a new feature.

WHOLESALE PRICES (1921).-- The phraseology of the 1883 statutes was unchanged until amended in 1921; in this year a minor amendment was made in the direction of further interpretation of value for duty purposes and an important addition was made to the legislation. This addition was new, stating that the value for duty purposes was to be not less than the wholesale price of the article concerned. This amendment was important in that it marked the first introduction of the principle of relating the value for duty purposes to wholesale prices in other countries.

COST OF PRODUCTION (1921).-- The outstanding amendment of 1921, however, was contained in the addition of Subsection 2 to Section 40 of the Customs Act.

We wish to make particular reference to the addition of this subsection to the Customs Act, as it represents a decided change in tariff policy in Canada. In effect, this section provided that the value for duty purposes shall in no case be less than the actual cost of production of similar goods at date of shipment directly to Canada, plus a reasonable profit. Here we have the factor of production costs abroad introduced as a criterion in establishing value for duty purposes in Canada.

But the 1921 addition went further; it stated that the value for duty purposes must also include a reasonable allowance for profit -- another new feature. The implication of these new departures was that Canadian tariff authorities in fulfilling their duties had to be in a position to know the costs of production in other countries, so that goods shipped to Canada could be so valued as to include a reasonable profit to the manufacturer or producer abroad.

But the 1931 legislation went still further when it provided that the "Minister of Customs and Excise shall be the sole judge of what shall constitute a reasonable profit in the circumstances". We submit that this was in fact a delegating of tariff-making or taxing powers to a Minister of the Crown and that it opened the way for vital decisions upon the sole judgment of whoever happened to be Minister of Customs and Excise at the time.

I will not read the Section on depreciated currencies; there is not a great deal that needs to be discussed in that Section. I turn to Section 36 on page 4: DEVELOPMENT OF SECTION 36:

Value for duty purposes, however, involves another section of the Customs Act -- Section 36 as contained in the revised Statutes of Canada, 1927. We will now trace the history of that section.

Section 31(1867).-- In 1867, Section 31 of the Customs Act provided:

" The fair market value for duty, of goods imported into Canada, shall be the fair market value of such goods in the usual and ordinary commercial acceptation of the term at the usual and ordinary credit, and not the cash value of such goods, except in cases in which the article imported is by universal usage considered and known to be a cash article, and so bona fide paid for in all transactions in relation to such article; and no discounts for cash shall in any case be allowed in deduction of the fair market value as herein above defined; and all invoices representing cash values, except in the special cases herein above mentioned, shall be subject to such additions as to the Collector or Appraiser of the Port

"at which they are presented, may appear just and reasonable to bring up the amount to the true and fair market value as required by this section."

Page 175 follows.

Changes in the wording of this clause made in 1883, 1886 and 1907 were of minor importance and will not be dealt with in this memorandum.

In 1930, however, Section 36 as it appeared in the revised Statutes of 1927 was repealed, and the following section substituted:

The first part of the amending section reaffirms the basis which had been previously adopted; namely that:

"(1) Such market value shall be the fair market value of such goods in the usual and ordinary commercial acceptance of the term, and and as sold in the ordinary course of trade, such value in no case to be lower than the selling price thereof to jobbers or wholesalers generally at the time and place of shipment direct to Canada."

Here again we have the reference in the fixing of value for duty purposes in Canada to wholesale prices abroad. Subsection 2 is decidedly important. It went a step further than any previous legislation in regard to the basis upon which values for duty purposes were established. This provided that the value for duty purposes shall not be less than the actual cost of production of similar goods at date of shipment direct to Canada plus a reasonable advance for selling cost and profit. The 1930 revision of section 36 introduced almost exactly the same type of legislation that had been introduced in 1921 as an amendment to section 35, which amendment was dropped in 1922. There was this difference, however; the 1930 amendments to section 36 went one step further and included not only cost of production and profits as criteria for fixing value for duty purposes, but also a reasonable advance for selling cost.

The amendments of 1950 greatly complicated the admission of goods into Canada, by making specific knowledge a prerequisite to the fixing of import valuations. This fact will be appreciated when it is considered that before valuation for duty purposes can be established, the responsible Minister and the responsible Department must be satisfied as to the cost of production of the specified article in the country from whence it is imported; they must also be satisfied in every case that, in addition to the actual cost of production of the goods imported into Canada, a reasonable advance has been made in respect to selling costs, and that the manufacturer abroad has included in his price a due allowance for profit.

In summary, this legislation placed upon the responsible Minister and his Department the duty of ascertaining the cost of production of thousands of commodities produced in all countries, and of satisfying themselves, once the cost of production in these countries has been ascertained, that such value for duty purposes also included a "reasonable advance for selling costs and profit." And, furthermore, the Minister was to be the sole judge of what constitutes "a reasonable advance for selling costs and profit."

THE CHAIRMAN: Can you tell us what relation this history and this method of calculating the duties bears to our investigation. I can understand the effect of the tariff. How does the method by which the duties are imposed come within the purview of this investigation?

MR. PITBLADO: I will ask Dr. Grant how he arrives at it in his brief. The Dr. is responsible for it. You have heard the Chairman's question.

PROFESSOR GRANT: Well, if the Chairman would care to have me establish the thesis, if you like, as to why this section is submitted along with the method of calculation then I believe probably it is best for us to read from the beginning and our summary on page 15.

THE CHAIRMAN: I do not want to interrupt you at all, Mr. Grant, but at the moment I do not see just how the method whereby the duty is arrived at comes within the purview of this investigation. It is interesting; but I do not see how it is pertinent to our inquiry. We cannot pass upon the policy of the Federal government; we can pass upon its effects. As to how they framed their tariff legislation, whether by direct legislation or by the delegation of powers to the Minister is something that is beyond the scope of our investigation; unless some reason can be given for bringing it within.

PROFESSOR GRANT: The reason, Mr. Chairman, I submit is this: we attempt to measure what the effect of the tariff is. Other economists have made a similar measurement and I should say in general as far as the West is concerned that in general terms we have measured this disability as it affects the West.

Now, how did that disability arise? If it arises from an accumulation of tariff legislation which, shall we say, is cumulative but quietly going on the correction of the disability, I would suggest, is a reversal of that policy. If part of that policy in our judgment is unconstitutional in that it delegates certain powers to the Minister of Customs, takes it out of Parliament entirely, then we as Westerners have no recourse to bring that about.

THE CHAIRMAN: If you say it is unconstitutional you have recourse by access to the courts. I should make it

it quite clear that it is not within the scope of this Commission to sit in review on Federal tariff policy. That is a matter of public policy which must be determined by the Parliament of Canada. We have not been asked to sit in review on it. Regional economic facts is quite a different matter. We have to consider that question.

PROFESSOR GRANT: I am in your hands.

THE CHAIRMAN: I raised the point because I could not see just how it is germane to our inquiry.

MR. PITBLADO: I suggest that Dr. Grant go on with his brief in connection with the summary of the tariff, and if there is a special disability to call the attention of the Commission to any particular part of the legislation that would be germane to the issue.

THE CHAIRMAN: I mention it because I do not want any misunderstanding.

PROFESSOR GRANT: All right, my Lord. We shall start with section 2.

MR. PITBLADO: I am suggesting to Dr. Grant that he go on with section 2 of his brief which deals with incidence of the tariff burden on Western Canada, and if there are any special portions of the other brief to which attention should be called that could be done later. In this way I believe we would shorten a good deal of the reading.

THE CHAIRMAN: The brief will be filed.

MR. PITBLADO: Yes, for reference. I think I might say that Dr. Grant has made a very useful contribution to anyone studying the tariff question by this very careful preparation that he has given of the history of the tariff and the changes that have been made throughout. I quite appreciate what, you, Mr. Chairman, said about

the use of it in dealing with economic burdens.

THE CHAIRMAN: I quite agree.

PROFESSOR GRANT: I shall now read from page 19.

The Commission is no doubt aware of the estimate made by Norman McL. Rogers of the provincial incidence of the Canadian tariff. We shall not attempt to criticize or sustain his method or results, which the author himself presents with reservations. Professor MacGregor, who criticizes Mr. Rogers' method, doubts the vailidity of assuming that the prices of protected goods are raised by 26 per cent (duties collected as a percentage of dutiable imports). He also challenged the estimates of the total value of production which is supposed to benefit from the tariff and attempts to show by another method that Mr. Rogers has probably over-estimated such benefits. With these refinements of technique we are not at this time concerned. We are, however, urgently concerned with revealing as realistically and objectively as possible the added burden that national tariff policy places on the agricultural industry of Western Canada.

The importance to Canada of western agriculture and the necessity of lowering the costs of producing western grain, if it is to compete successfully in world markets, are axiomatic. It is agreed that we should pay some price for federation and the preservation of a balanced economy. But the price we pay should be known, and the administrative devices by which we are compelled to pay should be revealed, if the inequities of our present arrangement are to be adjusted. We have attempted to reveal how tariff and customs administration increased the weight of protection; we shall now attempt to measure the burden in money terms."

The cost of the tariff is known and felt by Western farmers when they buy producers' or consumers' goods. They may not know particular rates, or how tariff costs are pyramided, or whether the duties levied are fully protective for Canadian industry, or the extent of competition in the Canadian market. But they do know, for instance, by direct price comparison that they are paying more for automobiles than the United States farmers, and they suspect that a comparison of other items would reveal similar discrepancies.

This, in brief, is our approach to the problem. We first prepared a budget of farm expenditures by commodity groups. This budget is based on data collected by the Dominion Bureau of Statistics, on investigations made by agricultural economists, and on an index of farm purchasing power which is compiled and published by the Searle Grain Company of Winnipeg and which includes a so-called normal farm budget. All of these data have been compared by us and a composite farmer's budget prepared that we believe evens out the inadequacies of any one estimate and is as typical as our information and judgment will permit.

The budget of farm expenditures which might be affected by the tariff is made up of the following commodity groups:

COMMISSIONER MacKAY: How do you arrive at the tables that follow?

PROFESSOR GRANT: Take, for instance, automotive equipment and fuel. We estimate the farmers paid \$100. for certain items in all price data covering \$100.

COMMISSIONER MacKAY: You estimate that?

Professor GRANT: Yes.

PROFESSOR GRANT: Yes. Take the instance of household equipment and furniture. It has been estimated that ninety dollars a year is spent in the purchase of household equipment and furniture by the average farmer, but we have prices for only \$16.00 of that amount. Then we compiled a list of over two hundred single items which we classified under the above commodity headings. With these lists we conducted an investigation of prices paid by farmers in northern Minnesota and southern Manitoba. The survey was made on both sides of the border in areas located approximately thirty miles, in each case, from the boundary. We chose these locations in order to avoid any effect of what might be termed border influence upon prices.

MR. PITBLADO: Just stop a minute and see that you make quite clear how you work out this sample budget. You are reading it fairly rapidly.

PROFESSOR GRANT: I come back later on to the adjustments that may take place.

MR. PITBLADO: You have budgeted the farm expenses by commodity groups?

MR. GRANT: Yes.

MR. PITBLADO: I see the first list is a list of commodity groups. What do you mean by commodity groups?

PROFESSOR GRANT: Well, the first budget includes all the items included in automotive equipment.

MR. PITBLADO: There are six commodity groups shown below.

PROFESSOR GRANT: That is right; and the items for these groups are in the Appendix.

MR. PITBLADO: What page?

PROFESSOR GRANT: Page 24.

MR. PITBLADO: Then, you say the budget is based on data collected by the Dominion Bureau of Statistics which I understand you say is printed.

PROFESSOR GRANT: Yes, I have a copy.

MR. PITBLADO: We had a brief filed with the Royal Grain Commission and I know there are statistics put out by the Dominion Bureau of Statistics on this question we are considering. Then you have here an investigation made by agricultural economists. Who are these agricultural economists?

PROFESSOR GRANT: Some of our own and some of the investigations were made by the Pioneer Problems Committee of which I was a member.

MR. PITBLADO: They were published?

PROFESSOR GRANT: Yes.

MR. PITBLADO: When did that commission makes its investigation?

PROFESSOR GRANT: They made their investigation in 1930 and 1931.

MR. PITBLADO: So you have individual agricultural economists and those who are working on the problem. How was it done?

PROFESSOR GRANT: We took over fifteen hundred farm records in Manitoba.

MR. PITBLADO: Then you have an index of farm purchasing power compiled and published by the Searle Grain Company of Winnipeg. The Searle Grain Company of Winnipeg is a research company?

PROFESSOR GRANT: Yes.

MR. PITBLADO: And they publish monthly a Searle Grain Letter? Major Strange is the head of the research department of the Searle Grain Company? They have an index of the things the farmer buys which is know as the

the Searle Index and has been published for some time. In fact Major Strange put in a brief on the questions of costs before the Royal Grain Commission based on what they called their Searle Index. That is what you mean by the index of the Searle Grain Company and that is available?

PROFESSOR GRANT: That is available.

MR. PITBLADO: They had in that what the called a normal farm budget?

PROFESSOR GRANT: That is right.

MR. PITBLADO: You took all that data and compared it? You made from that what you call a composite farmer's budget and it evens out the inadequacies of any one estimate and is as typical as your information and judgment will permit. From that information you have worked out what you call a composite farmer's budget.

PROFESSOR GRANT: That is right.

MR. PITBLADO: And the budget for the farm expenditures affected by the tariff make up these amounts. Is the budget that you put in these two columns the annual.

PROFESSOR GRANT: That is the annual.

MR. PITBLADO: That is the annual budget that you would expect a farmer in a community with an average number of children - what is the farm unit you use?

MR. GRANT: Four.

MR. PITBLADO: The farmer his wife and four children?

PROFESSOR GRANT: Yes.

MR. PITBLADO: That is the basis on which it is worked out?

PROFESSOR GRANT: Yes.

MR. PITBLADO: In the second column you have the amount in your own price data. You went out and got the prices. Is that what they were actually paying?

PROFESSOR GRANT: Yes.

MR. PITBLADO: During the last years of depression the amounts the farmers spent for these things were low because they had no money to spend. That is what you mean when you say while there are \$325 for machinery and implements in the farm budget the data you got from actually going out and getting it from the farmers was about \$250.

PROFESSOR GRANT: No.

MR. PITBLADO: Is that what you mean?

PROFESSOR GRANT: No. What we estimate is the normal. Under normal conditions the farmer would purchase \$325. worth of machinery a year. We were able to get information only on items which included \$250.

MR. PITBLADO: That is what you mean by that. But you have \$90 for household equipment and furniture in the estimated farm budget, and you were able to get only how much?

PROFESSOR GRANT: We were able to get data on items that amount to \$16.00.

MR. PITBLADO: It is the same with clothing?

PROFESSOR GRANT: Yes; but I explain how we make adjustments.

MR. PITBLADO: I wanted to make that clear before you went on.

THE CHAIRMAN: I assume, Mr. Grant, that the reference in these items is proof that the farmer buys the articles that enter into the farm budget.

PROFESSOR GRANT: Yes

THE CHAIRMAN: Every farmer purchases food.

PROFESSOR GRANT: Every farmer purchases food, yes.

MR. PITBLADO: What is the page?

PROFESSOR GRANT: Page 20.

MR. PITBLADO: What is the page you gave with regard to prices?

PROFESSOR GRANT: Page 24.

COMMISSIONER MacKAY: The second column, you say, contains all the items on which you could get prices, Is that it?

PROFESSOR GRANT: Yes all that we were able to get items for, and that were significant comparisons.

COMMISSIONER MacKAY: What?

PROFESSOR GRANT: Significant comparisons.

COMMISSIONER MacKAY: Why could you not get prices for the others. Did you make any selection?

PROFESSOR GRANT: No. The point was we could not obtain the information with regard to certain items. Take, for instance, cotton goods. We did not feel that we were able to make a theoretical comparison on cotton goods.

COMMISSIONER MacKAY: Why?

PROFESSOR GRANT: Well, in these stores where we were trying to make comparisons there was so much variation in quality that so far as we were concerned we thought we could not appraise the matter. Take the instance of household equipment. We tried to get the data on household equipment from these country stores. We found it was very difficult to compare a lot of these items. Then, we had instances of their buying a lot from the mail order catalogue. We tried to supplement that on the basis of a study of the mail order catalogues to add to our data.

COMMISSIONER MacKAY: There was no selection of items which would come under the tariff.

PROFESSOR GRANT: We certainly did not try to do it that way. As a matter of fact when we come to the items personally we shall find that in every case where there was a different calculation for it we just ignored it. We had the information but we were not sure of the comparison, you see, even though it looked detrimental - the price was higher.

THE CHAIRMAN: You may have a higher standard of living here. I should be surprised if the farmers in Ontario spent that amount of money annually on household purchases.

PROFESSOR GRANT: You must remember, Mr. Chairman, that you are dealing with commercial agriculture, and the items which build up this cost are your machinery and automotive equipment, building materials and the like, which differs from a smaller farm.

THE CHAIRMAN: All right.

PROFESSOR GRANT: Inadaquacies of the data compiled may be analyzed as follows:

1. Neither our original list nor the final data on comparable prices are a complete sample of what farmers purchase. For some articles comparable prices were unobtainable, and for others variations in quality were so great as to cause us to delete them from our calculations.

2. We omit urban consumption from our calculations, but attempt later on to include it on the basis of urban-rural population ratios.

3. We have not been able to check the possible excess of United States prices over Canadian prices against prices of comparable commodities obtained free

of duty from a third country. For instance, we have not been able to measure the added costs, if any, of the duty on woollen goods imported, let us say, from the United Kingdom. The effect of this omission is to make our estimate of the tariff burden an understatement by an amount which we have not attempted to estimate because of the limitations of the scope of our investigations.

4. It is beyond the limitations of our study to attempt to estimate just how much the tariff burden and the freight rate burden overlap. For instance, with regard to shingles and cement - two commodities that appear together on our list - we may assume that freight rates cause the first to be higher in price and monopoly the second. There may be other items of this nature, the tariff on which is not wholly responsible for the increased price. Whatever the reason, the burden is there.

COMMISSIONER ANGUS: Does that mean that you are measuring the difference between the American tariff and the Canadian tariff?

PROFESSOR GRANT: The American price and the Canadian price. Our price comparisons are of retail prices and the differentials could therefore conceivably be due to different retail mark-ups rather than to the tariff. But in the absence of tariff such differences in mark-ups would not persist in the same immediate neighbourhood. The Royal Commission on Price Spreads produced evidence that the Canadian average mark-up is ordinarily below the American, so that differences in prices do not reveal the full burden of the tariff.

MR. PITBLADO: You have the reference to the page below.

PROFESSOR GRANT: Yes. As our data do not cover all the items which are included in a typical farm budget

we merely assume that the remainder bear an equally heavy tariff burden. This assumption may be invalid, but on checking over a long list of tariff rates on such items we came to the conclusion that the probable error involved was not great.

Adjusting for Inadequacy of Sample

We have mentioned previously that our list of commodities for which comparable prices were obtained represents only a portion of what we have chosen to call our estimated normal farm budget of expenditures. For example, we estimate price differences for annual purchase of machinery, implements, etc., to the amount of \$25, while a normal average expenditure should be approximately \$325. Our estimated added cost, as a result of the tariff, on purchases of \$25. is \$14.19. We therefore have increased this cost to \$18.45, which is $\$14.19 \times \frac{325}{250}$.

Checks on Data

For the information of the members of this Commission and as a possible means of checking our prices, there are included, as Appendix tables to this section, data on "value of imports, duty collected, and effective rate of duty paid for some major items of consumption." The effective rate is the amount of duty collected expressed as a percentage of the total value of imports (both dutiable and non-dutiable). We also compiled as a check on our data the rates, as we are best able to determine them from published customs dues, that are applicable to the items which we have used in our calculations of price differences. This information is not submitted, as we felt our statistical tables were perhaps already too detailed.

Summary of Results

The following tabulation brings together the results of our detailed calculations by commodity groups of the estimated increased cost per farm in Western Canada due to tariff on imports from the United States:

Automotive equipment and fuel	.....\$	27.19
Machinery, implements, etc.	.....	18.45
Building material	.....	7.16
Household equipment and furniture	....	12.60
Clothing	.....	24.41
Food	.....	20.57
Total		<hr/> \$ 110.38

There are approximately 290,000 farms in the three prairie provinces and we have estimated the added cost per farm per year as roughly \$100. Therefore, the total added cost borne by Western farmers is 29 million dollars per year.

The weight of this burden may be judged by the following comparisons: The total municipal and school tax burden in Western Canada was 44.5 million dollars in 1933. This figure includes city, town, and village taxes. It is no exaggeration to state, therefore, that the cost of the tariff, to farmers only, is equal to what the whole population of Western Canada now pays to maintain local government and education. The Searle Index calculates the average real property tax on Western farms at \$69.85, which if compared with our estimates of an added tariff cost per farm of \$100, indicates the relative weight on rural life of local taxes as compared with the burden of national tariff policy.

It should be emphasized that the burden of the tariff on the farm population is only part of the total burden on Western Canada. According to the 1931 census, the

farm population is 50.79 per cent of the total population of the prairie provinces. If the tariff burden were the same, per capita, on urban as on rural population, our estimates would have to be increased to 58 millions per year. But this method of allocation minimizes the extent of the burden, since it is a recognized fact that per capita urban expenditures, on all groups of commodities but machinery, are higher than farm expenditures. There is also the similar burden on the population engaged in such primary non-urban industries as mining, fishing, and forestry, which we do not attempt to estimate here.

We are inclined to believe that our method of calculation yields a minimum estimate. No claim is made for its accuracy other than what ordinary commonsense and objectivity can provide. Every step in our calculations was made in a manner to preclude exaggeration and bias, so that if any particular item is challenged our attempted moderation elsewhere should support the validity of the total calculations.

THE CHAIRMAN: You give a table of figures showing the farm cost, urban cost and total cost in millions of dollars in Western Canada. What is the percentage of the rural and urban population in Manitoba?

PROFESSOR GRANT: Unfortunately I have not that here - 56 and 44.

THE CHAIRMAN: Which is 56?

PROFESSOR GRANT: Urban.

MR. ST. LAURENT: No.

PROFESSOR GRANT: Rural - pardon me. 44 Urban.

There are, of course, other calculations comparing the actual farm populations. You see, the rural population would include unincorporated towns. May I go on and read

the footnote at the bottom of page 22?

COMMISSIONER MacKAY: 56 Urban?

PROFESSOR GRANT: No, rural. 44 Urban.

COMMISSIONER MacKAY: In Manitoba?

PROFESSOR GRANT: Yes. We have drawn up a table at the bottom of the page on the basis of the farm population. We take the additional 29 million -

COMMISSIONER MacKAY: Urban is 9.5.

PROFESSOR GRANT: We take the farm population figures there.

COMMISSIONER MacKAY: Urban is 9.5 -

PROFESSOR GRANT: I did not get your question.

COMMISSIONER MacKAY: The Rural population is 56 and the Urban 44. How do you get the higher Urban figure?

PROFESSOR GRANT: We estimated the additional cost for all Western Canada. That is, urban cost. We said that the urban cost was the same as the rural cost for all of Western Canada. The farm population is 50.79 per cent.

THE CHAIRMAN: You draw a distinction between the farm population and the rural.

PROFESSOR GRANT: Yes.

MR. PITBLADO: But not in Manitoba; although I am told that while the rural population of Manitoba is equal to 56 per cent, there are a lot of small unincorporated urban towns; and I think a division was made, Dr. Grant, in cost by taking out these little towns because they are not farmers. That was taken from the 1936 Census. Out of the 56 per cent that is called rural 30 per cent is farm population and 26 per cent takes care of these little towns and villages. That is the way Dr. Grant gives the figures of farm cost in Manitoba. The rural population is broken down into 30 per cent farmers

and 26 per cent in these small towns. That explains it. The other 44 per cent is urban.

PROFESSOR GRANT: That is what I was going to say.

COMMISSIONER MacKAY: Including the 26 per cent urban.

MR. PITBLADO: Yes.

PROFESSOR MacKAY: We have made a calculation on the basis of the actual farm population cost and we find the figure to be 29 millions. We did not take the rural-urban calculation; we took the farm population figure, the actual farm population in Manitoba. The actual farm population is about 30 per cent because we have a large number of small towns and villages. That does not apply in Saskatchewan with the same force.

MR. PITBLADO: Before you leave that page, let me ask you this; when you were dividing up Manitoba in percentages you mentioned mining, fishing and forestry. These people have not been put into the farm communities; they would be party of the population that is taken out

PROFESSOR GRANT: No just took the farm population.

MR. PITBLADO: For your 30 per cent?

PROFESSOR GRANT: Yes. I think it is 30.6.

MR. PITBLADO: Mr. Davidson told me. The others are not in at all.

PROFESSOR GRANT: Shall we discuss the Appendix now Mr. Chairman.

THE CHAIRMAN: Yes, you may.

PROFESSOR GRANT: In the Appendix we have merely submitted for your information and for anyone else who cares to check it, our conclusions based on the information upon which our calculations are made.

MR. PITBLADO: Read your first page.

PROFESSOR GRANT: From this point on the essential material is contained in the tables. The textual

explanation gives a few special points to be noted in using the individual tables.

MR. PITBLADO: If the Commission will look at the table they will see what it covers. Table 1 is headed "Comparison of Canadian and United States Prices for Automotive Equipment and Fuel,; July 19 and 20, 1937, at Hallock, Minnesota, and Morris, Manitoba (All prices are retail cash prices except those starred, which are from mail-order catalogues, or those so indicated in the list)". This is an actual comparison of the prices on the two dates mentioned.

PROFESSOR GRANT: That is right.

MR. PITBLADO: The trucks that you have here are trucks of a well-known type.

PROFESSOR GRANT: Yes, standard equipment.

COMMISSIONER SIROIS: Is there any special reason why you have chosen these two towns?

PROFESSOR GRANT: No reason particularly, except they were approximately equidistant from the border. We could have chosen towns further west. Alberta and Saskatchewan could have taken other towns but I do not think it would make any difference. They were very similar agricultural areas.

MR. PITBLADO: Morris is how many miles south of Winnipeg?

PROFESSOR GRANT: About forty miles.

MR. PITBLADO: Hallock is a town across the international boundary about how far?

PROFESSOR GRANT: About forty miles. They are both in the Red River Valley.

THE CHAIRMAN: I understand, Professor Grant, the schedules here are a breaking down of the items that make up the percent.

PROFESSOR GRANT: That is right.

THE CHAIRMAN: I assumed that this statement would be dealt with by Dr. Grant when he presents his summary.

MR. PITBLADO: Yes. The truck that you mention here is an International Truck, and the automobile is a Ford Automobile. The prices are the same if they bought them in Winnipeg. The price is standard. There is no significance that the town of Morris happens to be used when referring to these particular trucks. There may be a little difference in regard to gasoline; but trucks and automobile parts have a standard price throughout.

COMMISSIONER ANGUS: Do the Canadian prices include sales tax which is not paid in the United States?

PROFESSOR GRANT: Yes.

MR. PITBLADO: Your price does include sales tax?

PROFESSOR GRANT: Our price is the actual retail price.

THE CHAIRMAN: You are not able to separate the sales tax from the tariff in this item. You cannot say what amounts actually enter into the market price by reason of the tariff and the tax respectively.

PROFESSOR GRANT: That is right.

COMMISSIONER ANGUS: The difference between the American price and the Canadian price does not result wholly from tariffs but partly from the sales tax, which is not a tariff burden in the same sense as the rest.

PROFESSOR GRANT: No; I think that is right.

THE CHAIRMAN: And to get at the real tariff burden, assuming your figures to be correct, one would have to take away from the total whatever figure - it might be an estimate -

that goes into the goods to make up the sales tax.

PROFESSOR GRANT: Of course, there are some state sales taxes in the United States.

COMMISSIONER ANGUS: Their rate is lower.

PROFESSOR GRANT: Yes.

THE CHAIRMAN: Can you tell me if there is a state tax in Hallock, Minnesota?

PROFESSOR GRANT: There was some on gasoline which we took cognizance of - not on the general run of items.

THE CHAIRMAN: Where there is a United States sales tax you have noted it?

PROFESSOR GRANT: Yes.

THE CHAIRMAN: In studying these figures on tariff burden one would have to take into account the proper amount representing the excess of the Canadian sales tax over the American sales tax.

PROFESSOR GRANT: That is right.

MR. PITBLADO: On table 1 you have a list of the prices for this International Truck. That truck with standard equipment at Hallock cost \$735 and at Winnipeg \$952. You work it on the same basis throughout this table.

PROFESSOR GRANT: Yes, except that is an illustration where we did not estimate any difference because we did not consider it customary equipment, although it is purchased by a large number of farmers.

MR. PITBLADO: I should like to call attention to that, Mr. Chairman. When Dr. Grant came to put his figure in on the tariff he did not put anything with regard to the trucks because, while many farmers buy these trucks they are not what he considers customary equipment. You did not include anything in these items in connection with

PROFESSOR GRANT: That is right.

MR. PITBLADO: You mention in the last part of your brief that your method of calculation yielded a minimum estimate. That would be an illustration of where you put nothing in.

PROFESSOR GRANT: That is right.

MR. PITBLADO: With regard to automobiles you do put something in.

PROFESSOR GRANT: But only for 50 per cent of the farmers.

MR. PITBLADO: What is the 10 per cent?

PROFESSOR GRANT: 10 per cent depreciation. That is what we estimate as part of his cost.

MR. PITBLADO: You estimated in the column that 50 per cent of the farmers had cars and from your survey you used the Ford as the standard.

PROFESSOR GRANT: Yes.

MR. PITBLADO: That is the Ford automobile?

PROFESSOR GRANT: Yes.

MR. PITBLADO: And you estimate 10 per cent as the annual cost and the estimated increased cost per farm per year you put in as \$9.60.

PROFESSOR GRANT: That is all.

MR. PITBLADO: Which would allow ten years to collect. The same thing applies to tires and tubes. I notice you have that estimated at \$9.30, 5 x 40%. What do you mean by that?

PROFESSOR GRANT: Five tires, 40 per cent depreciation

MR. PITBLADO: When you come down to the storage battery I notice you have 33 1/3 per cent. What do you mean by that.

PROFESSOR GRANT: I estimate it lasts three years.

MR. PITBLADO: And 33 per cent is the estimated quantity purchased annually.

PROFESSOR GRANT: Yes.

MR. PITBLADO: That they pay annually?

PROFESSOR GRANT: Yes.

MR. PITBLADO: You have an estimate of the price of a gallon of gasoline used?

PROFESSOR GRANT: Yes.

MR. PITBLADO: The amount of gasoline was estimated by your people from the amount that was actually used by a large number of farmers.

PROFESSOR GRANT: Yes.

MR. PITBLADO: The calculation was made on what basis?

PROFESSOR GRANT: Farm study.

MR. PITBLADO: I notice you give the Minnesota tax on gasoline as 6 1/4 cents per Imperial Gallon, and the Manitoba tax at 7 cents per Imperial Gallon.

PROFESSOR GRANT: Yes.

MR. PITBLADO: In computing your gasoline tax you converted the American gallon into the Imperial gallon?

PROFESSOR GRANT: That is right.

MR. PITBLADO: And these are the prices that you took.

COMMISSIONER SIROIS: Do you give the number of gallons per year?

PROFESSOR GRANT: Yes.

COMMISSIONER SIROIS: Are you not a little modest?

PROFESSOR GRANT: We try to be modest.

MR. PITBLADO: Dr. Sirois, I think you will see that all the way through they tried tabunder rather than over. The calculations are there but he shows what amounts they used. Now, Dr. Grant, you may return to page 24 where I

interrupted you. I think you had read the first paragraph. You say in Table 1 the item of farm trucks is excluded. That is the item that we use.

PROFESSOR GRANT: Yes.

MR. PITBLADO: Will you read through the rest of the items showing what you discover.

PROFESSOR GRANT: In Table 1 the item of farm trucks is excluded from our calculations of increased cost. Although equipment of this kind is rapidly becoming a necessary implement on grain farms, we do not conceive of it as being typical or customary as yet (only 3,143 farms out of a total of 57,774 farms in Manitoba reported having a farm truck in the 1936 census).

MR. PITBLADO: You say the 1936 census showed 3,143 farms as having a farm truck.

PROFESSOR GRANT: Yes.

MR. PITBLADO: And yet you did not include any item in your calculations of the increased cost by reason of the tariff in connection with any of these farms under that item.

PROFESSOR GRANT: That is right. We have assumed that automobiles are owned on only 50 per cent of the farms. This is based on census data of number of farms reporting cars. Estimates of expenditures on gasoline, kerosene and oil are based on farm budgets obtained by the Dominion Bureau of Statistics, the Searle Index of farm prices, and farm management surveys of the University of Manitoba.

For other sections of this study we have made adjustments in our estimates of total added cost to compensate for the inadequacy of our sample. But the number of items in this section is reasonably representative and we therefore leave the total at \$27.19.

THE CHAIRMAN: In connection with all these items, you understand, that we will have to have them checked by experts who are appointed by the Commission. If in any measure they differ materially a copy of the report will be furnished to you.

MR. PITBLADO: I think Dr. Grant will be very glad to show anyone the material he has. I refer to the Searle Index and other statistics.

THE CHAIRMAN: I do not think we shall gain much by going into the details.

MR. PITBLADO: I do not intend to, except to show what they cover. I think we had better take a look at one to see how it is made up.

MR. ST. LAURENT: I should like to ask three or four questions which might elucidate some of the points submitted here.

BY MR. ST. LAURENT:

Q. First of all, with respect to the historical exposition of these sections, I suppose you and I are fortunate in not having a personal recollection of all of them. There were three tariff elections, were there not, in 1891, in 1911 and 1930? A. Well, are they not all tariff elections.

Q. In some elections the tariff figures more prominently than in others. A. You had better ask Mr. Dafoe.

Q. We cannot speak from personal recollection of 1891. A. 1911.

Q. 1911 was very much a tariff election. In 1930 the tariff figured very prominently as an election issue. If my recollection is correct the prairie provinces did not express any disapproval of the tariff or the tightening up of the tariff in 1911 or 1930. A. Do not accuse me of it.

Q. I am neither accusing nor congratulating.

T THE CHAIRMAN: Perhaps Saskatchewan may have, I don't know.

MR. ST. LAURENT: Manitoba in 1911 and 1930 did not express any great disapproval.

HON. MR. BRACKEN: Even Manitoba can be wrong sometimes.

MR. ST. LAURENT: Yes. I suppose on economic points even the prime ministers from the prairie provinces can be wrong.

HON. MR. BRACKEN: Not always.

BY MR. ST. LAURENT.

Q. History seems to accentuate the fact that the tightening up was in 1921 and in 1930. At that time the prairie provinces former premiers were heads of the Government of Canada? A. Don't embarrass me. Q. It does show that opinion may vary upon these tariff problems and upon their effect upon the economy of the country? A. Quite so.

Q. The data that has been gathered here is most interesting, and I have no doubt the experts will find it extremely helpful; but as you pointed out these prices were price comparisons in the summer of 1937. Then, they include the sales tax; that is, the retail prices in Canada do include the sales tax. A. Yes.

Q. The sales tax in 1937 was no lower than it was in 1936. A. Quite so.

Q. Your picture for 1936 shows that the per capita sales tax was 703. A. I am not familiar with that.

Q. Although 827 was your peak. Your calculation was for a family of six. A. Yes.

Q. So that on \$100 or \$110 in 1936, if the sales tax

were distributed proportionately over the whole population 6 x \$7.03 would be \$42.18. A. If you start back I am going to put in the tractor.

Q. I am just pointing out on the \$100 \$42.00 might be sales tax, which is universal over the whole population.

A. Quite so.

Q. These figures do reflect both the burden of the sales tax and the burden of the tariff. A. Quite so.

Q. And the rural population part of that was 55,000 farms, or about 330,00. A. A farm population of about 330,000.

Q. I am dealing with the one in respect of \$5,500,000.

A. Yes.

Q. That would be about 3 1/3 per cent of the total population of Canada which is roughly about 10 millions.

A. I would take your word for it.

Q. Have you noticed that the customs and sales tax combined for the years 1932 to 1936 inclusive ran from \$145,000,000 odd to \$155,000,000 odd. That appears on page 189 of the Year Book. A. Yes.

Q. So that 3 1/3 per cent of that would be about \$5,500,000. A. You are not trying to estimate if I get you correctly, that the amount of duty collected by tariff or sales tax is equal to the full amount of the raise in prices.

Q. No; I am just pointing out that the Per capita distribution of customs duties and sales tax --

A. Collected by the Government?

Q. -- is from \$145 million to \$151 millions per annum. That would be \$14 and \$15 on a per capita basis. A. But that is not the amount that he may pay.

Q. No, but that is the amount collected. A. That is right.

Q. Then someone has to pay possibly a little more because of the burden that is put upon goods imported.

A. Quite so.

Q. But checking over what the Government gets we find that it amounts to \$14 or \$15 per head, and for the six ideal persons of the farm family it will amount to \$84 to \$90. My arithmetic is correct, is it not?

A. Yes; but your assumption probably is not.

Q. I am taking the six ideal persons on the farm.

A. Yes, but you are assuming that your purchases are equal to -

Q. No, I am just comparing their burden with \$100 per year. The burden of the average Canadian would be from \$84 to \$90 resulting from Customs duties and sales tax. That farm's burden, according to your calculation, would be \$100.

A. Yes.

Q. It is unfortunate for us that the customs and sales taxes are not the only taxes that the Canadian citizen has to provide. That is so, is it not. A. You are asking me?

Q. Yes. A. Yes.

MR. ST. LAURENT: These are all the questions I have to ask, Mr. Chairman.

MR. PITBLADO: I should like to ask Dr. Grant if he knows the items on which the Government collects sales tax. They do not collect sales tax on all the items that the farmer buys.

THE CHAIRMAN: They do on all imported goods.

MR. PITBLADO: I do not think they collect sales tax on all the sales that are made.

PROFESSOR GRANT: Yes, that is right. It is hard to say what percentage would be revenue and what percentage tariff burden.

MR. PITBLADO: I think Dr. Grant's contention would be a very large proprtion of the extra amount that is paid by the farmer does not produce revenue to the Government. In discussing this with him that was my understanding. There is no suggestion that this comes from imported goods that the farmers buy. The farmers suggest the effect of the tariff is that they pay an increased burden of cost.

THE CHAIRMAN: Some would be merely domestic production.

MR. PITBLADO: Some imported.

THE CHAIRMAN: We will adjourn until 2.30.

(Whereupon the Commission adjourned at 1.00
until 2.30 O'Clock)

(Page 197 Follows)

AFTERNOON SESSION

The Commission resumed at 2.30 P.M.

THE CHAIRMAN: I understand that the next brief is Part V, The Effects of Declining Income. All the Commissioners will listen to this with sympathy because of practical experience.

PROFESSOR UPGREN: The first Part gives the information that is summarized in the Appendix for each of the years from 1926 to 1934 or 1935 and in one case to 1936, and the second Part summarizes the information after selecting for discussion some of the years. I should like to read the first Part, which takes up slightly more than three pages, and then to refer briefly to some of the tables, and reserve discussion for such questions as the Commission may have.

If I may, I will commence to read at page one of Part V: "

This section summarizes some of the effects of the decline in income of the people of Manitoba that are considered in extended detail in the next section. It is the great decline in income that has occurred since 1926 that has created many of the problems that face all governments in Manitoba. The decline in income has been persistent in all the years since 1928 and particularly severe since 1930.

Manitoba has within its borders 6.75 per cent of the Canadian people, but since 1928 its share of the national income has averaged slightly less than 5 per cent and in 1935 was less than 4.50 per cent.

MR. PITBLADO: That is shown, according to the footnote in section D, Table one, is it not?

PROFESSOR UPGREN: That is right.

THE CHAIRMAN: Is the income for 1936 given in that table ?

PROFESSOR UPGREN: No, that is not available.

MR. PITBLADO: These total income amounts are taken from the Dominion Bureau of Statistics?

PROFESSOR UPGREN: That is right. If I may now proceed: " This share of the income in 1935 was but ~~two~~-thirds of the share of population. Stated the other way around, Manitoba has a share of the population of Canada that in 1935 was one-half again as large as its share of the income of the people of Canada. Briefly, the significance of the difference between these two figures is that the demand for expenditures is determined by the numbers of our people, but our taxable capacity is determined, not by the number of our people, but by their income. Our taxation when measured on a per capita basis is substantially in line with other provinces, but when that taxation is measured as a proportion of the income of our people it is found to be much higher than for the rest of Canada. In other words, when our per capita income falls by one third as compared with the rest of Canada, the burden of taxation on that reduced income for the same standard of services is fifty per cent greater.

But first let us compare the trend of income for Manitoba with that for Canada as a whole. The income of the Canadian people in 1935 was only two-thirds of the income in 1926. If we express this decline by the use of index numbers, using 1926 as 100, we find that our income fell to 66 in 1935. Stated in another way,

this means that for every \$100 of income that was received by Canadians in 1926 only \$66 was received in 1935. But in Manitoba the decline was from \$ 100 in 1926 to \$49 in 1935. No other province except Saskatchewan suffered as great a decline in income. In Ontario and Quebec, for example, the decline in income was only to \$76 and \$70, respectively.

THE CHAIRMAN: You say that in 1935 Manitoba's share of the national income was less than 4.50 per cent. Was that the lowest year?

PROFESSOR UPGREN: Only in 1935 was it below 4.50 per cent. For about six or seven years earlier it was five per cent or slightly less.

THE CHAIRMAN: Why do you choose 1935? Why do you take the lowest year, if you want to make a fair general comparison?

MR. PITBLADO: The figures are given for every year, Mr. Chairman, if you will look at Table 2, on page 8. Perhaps it would be as well to look at that table now as any other time.

PROFESSOR UPGREN: I think the percentages are found in Table one page seven. The first row of figures in the Table gives the proportion of population of Manitoba as 6.75.

MR. PITBLADO: That appears in the sixth column, showing the percentage distribution ^{of} population according to the census of 1931.

PROFESSOR UPGREN: That is right.

MR. PITBLADO: That is the last census available?

PROFESSOR UPGREN: That is right.

MR. PITBLADO: Then you have the percentage distribution of income, and as you follow the column down

you got the figure for Manitoba from 1926 onwards.

PROFESSOR UPGREN: That is right, and it will be observed that in 1929 the percentage fell below 5.0 , than in 1933 and 1934 it was slightly above 5 per cent, and in 1935 slightly below 4.50.

THE CHAIRMAN: Is that cash income?

PROFESSOR UPGREN: It is that we describe as the national income, which is the value of all goods and services, goods produced and services rendered by all the people of the province as compared with the income of all the people of Canada as a whole, and the figures for Canada come from the Dominion Bureau of Statistics.

THE CHAIRMAN: But in the case of farmers does the Bureau of Statistics compute the value of the goods consumed on the farm?

PROFESSOR UPGREN: No. The production part as distinguished from services refers to net production, in order that they may avoid, for instance, double counting of barley and pork where the barley is fed to produce pork.

COMMISSIONER ANGUS: Is there not another point, that the goods sold and services sold that are counted are not goods produced for personal consumption or personal services rendered.

PROFESSOR UPGREN: That is right. Our main point here is to bring out a comparison with the other provinces.

COMMISSIONER ANGUS: But there is a certain amount of income consumed by the farmer that would not be counted in these statistics?

PROFESSOR UPGREN: That is right.

MR. PITBLADO: Just before leaving Table one, if the Commissioners will look back at page one, where Professor Upgren was reading, he says in the third line of the second paragraph that in 1935 Manitoba's share of national income

was less than 4.50 per cent. The actual figure as shown in the table on page seven was 4.44 per cent in 1935.

The Chairman asked why 1935 was chosen, but I would point out that Table two on page eight shows all the years from 1926 to 1935, so while Dr. Upgren uses 1935, he gives in the Table the figures from 1926 onwards, and 1935 is the latest year for which a comparison can be made.

PROFESSOR UPGREN: I will now turn to paragraph two on page two of this brief:

During this period, in which the value of agricultural production of all Canada declined from \$100 to \$44, the decline for Manitoba was to a lower figure of \$29. Thus, we may say that, on the average, the farmers of Canada lost \$56 out of every \$100 of their 1926 income, whereas in Manitoba they lost \$71. The loss to Manitoba farmers was therefore greater than in any other province in this nine-year period. Of all the major industries in Canada, agriculture suffered by far the most severely, and the greatest decline in agriculture was in Manitoba and in Saskatchewan.

A substantial portion of that decline was in Manitoba, to some extent, but particularly in Saskatchewan.

THE CHAIRMAN: Due to weather conditions and the drought.

PROFESSOR UPGREN: That is correct. To continue:

In contrast to the decline from 100 to 44 in all Canadian agriculture from 1926 to 1935, the decline in all Canadian manufacturing was only to 79; in mining to 99; in forestry to 73.

MR. PITBLADO: And the footnote refers to Table 5. If the Commissioners will look at Table 5 on page 10, it shows

the index numbers of production of important Canadian industries by provinces for selected years. You do not take all the years, Dr. Upgren?

PROFESSER UPGREN: In Table D in the Appendix all the years are given.

MR. PITBLADO: All the years are given in the Table in the Appendix but certain years are picked out here for no particular reason except to shorten the list, as I understnad it.

PROFESSER UPGREN: That is right. Table D analyses the figures for Agriculture, Forestry, Fisheries, Manufactures, Mining, and gives the total net production of various industries for the several provinces.

MR. PITBLADO: No doubt there has been a substantial imporvement in income in 1936 and 1937, but there are no figures out yet for that. The figures of the Dominion Bureau of Statistics are the only ones available, but there is no doubt that there has been an improvement in Manitoba in 1936 and 1937. In 1936 the prices of agricultural products were very high.

PROFESSER UPGREN: Prices of agriculture products in 1936 were very high, and the crops in the United States were short, and the position was rather fortunate for Manitoba because in Saskatchewan the crop was extremely small.

MR. PITBLADØ: Might I add this? The predictions for a good crop for Manitoba this year at high prices may or may not be fulfilled. It depends on many circumstances outside of the prairie provinces, but undoubtedly conditions in 1936 and 1937 might be called abnormally good for Manitoba. It would be better, in order to ge a true picture to take the figures fðm 1926 to 1935 as showing what were the conditions during those nine years.

THE CHAIRMAN: We hope that the next seven years will be better than the last seven.

MR. PITBLADO: We hope that.

PROFESSOR UPGREN: I turn now to paragraph three of page two of the brief:

It will be recalled that taxes in Manitoba when expressed in relation to its population have been closely in line with the average for all Canada. The measurements, for example, show that in 1933 average taxes, municipal and provincial, in all the provinces of Canada were equal to \$32.32 for every person in the Dominion. In Manitoba, however, they were \$33.55 or only about 3 or 4 per cent above the national average. This amount was substantially below the figure for the two large provinces.

Then the footnote refers to Table six which will be found at the bottom of page 11. It shows the municipal and provincial taxes per capita for four separate years, and there is a reference at the very bottom of the Table to Table H in the Appendix, which gives the figures for every year. It will be seen from the table on page 11 that municipal and provincial taxes per capita for all provinces amounted in 1926 to \$31.57. That is the bottom figure in the first column.

MR. PITBLADO: That is the average?

PROFESSOR UPGREN: That is the average for all of Canada for 1926 and the figure for Manitoba that year was \$34.66. There is a slight variation in figures for Manitoba in the four years given in the Table from the average for all the Dominion.

COMMISSIONER MacKAY: Why do you stop at the year 1933 in the Table?

PROFESSER UPGREN: We were awaiting collection of data on municipal taxes, and we would like to bring that up-to-date.

COMMISSIONER MacKAY: The figures are not available yet for later years?

PROFESSER UPGREN: They are not available. I turn now to the last paragraph on page two of the brief:

We now wish to express this average tax for each person as an average proportion of income. In so doing we find that this per capita tax burden--which for the people of the province of Manitoba is almost exactly at the national average--becomes a high tax burden when compared with the income of our people. Our total taxes (again including both municipal and provincial taxes) of \$33 per capita, when compared with the income of the people of Manitoba, require a proportion of their income that is very substantially above the average for Canada.

I would like to point out at this point that the taxation burden of the people of the province is the sum total of both municipal and provincial taxes, and in some provinces certain services are administered by the province which in another province may be conducted by the municipality. It is sometimes referred to^{as} overlapping taxation.

THE CHAIRMAN: I assume that the figures here given represent the taxes actually collected?

PROFESSER UPGREN: The Table in the Appendix giving the data indicates that in a few years it is the taxes levied. The earlier years were years in which tax delinquency was extremely low.

THE CHAIRMAN: The Tables generally represent taxes actually collected?

PROFESSER UPGREN: Yes, that is correct.

THE CHAIRMAN: I presume that in Manitoba and on the prairies during the last seven years, the taxes in arrears have greatly increased, that the amounts actually delinquent must be larger by reason of the drought areas.

MR. PUTBLADO: Yes, and there is no doubt that this point will be pressed on the Commission, that not only are the taxes not collected, but in a great many cases the lands have reverted to the municipalities and have become part of the municipality, and on such lands, of course, the municipalities can collect no taxes at all. That is something you will hear about from some of the other provinces. I think it would be well at this point to look at Table F, on page 24, just to see what it purports to cover. I think the Table should be looked at sufficiently to be understood. It is headed: "Total and Per Capita Tax Receipts of Municipalities Only, by Provinces, 1926 to 1934; (tax receipts are in millions of dollars; population is in millions)." Then there is a foot note, in which Dr. Upgren will perhaps deal with.

PROFESSER UPGREN: The municipal tax receipts for Prince Edward Island unfortunately are not made available in the Year Book. It will be observed that from 1926 to 1930 the tax receipts are given as 175; that is \$175,000, so we are dealing here with a rather small figure. The previous years are taken at the same figure, because the information is not available. It would hardly seem that that would introduce any error because the taxes were taken care of gradually. The footnote (c) refers to Manitoba and the municipal tax receipts are given from 1926 through 1930. These figures are for taxes levied.

MR. PITBLADO: That answers the question asked by the Chairman. For the years, 1926, 1927, 1928, 1929 and 1930 the figures for Manitoba are the figures for taxes levied. Is that correct?

PROFESSOR UPGREN: That is correct. We have not the information as to receipts on the same basis, but we do know that in those years the tax payments were very close to the levies. The delinquencies came with the depression years.

THE CHAIRMAN: In the other provinces the figures represent taxes collected?

PROFESSOR UPGREN: That is right. Reverting to the last paragraph on page 2 of the brief:

The figures show that in all provinces of Canada municipal and provincial taxes taken together absorbed a little more than 10 per cent of the income of the Canadian people. Because of the great decline in income in Manitoba its taxes (though closely equal to the average for Canada on a per capita basis) when expressed as a proportion of income required slightly more than 14 per cent of the income of our people. In brief, it is because of the decline in the income of Manitoba that our per capita taxes of \$33 amount to 14 per cent of the income of our people, whereas the average per capita taxes for Canada of \$32 amount only to 10 per cent of the income of the people of the Dominion.

Then there is a reference to Table 7, which appears on page 12. I might say that the very bottom row of figures in the table running across the page is given for our information only. I do not use it, but it is of interest, perhaps, to know what the total taxes, provincial, municipi-

pal and federal represent expressed as a percentage of the income of the people of Canada.

THE CHAIRMAN: Where is that?

PROFESSER UPGREN: That is in the Table on page 12, the very last row of figures across the page. I make no reference to it, but it is a matter of interest to know what the total taxes in the country are in relation to income. The Table shows that for Manitoba in 1926 the percentage of income collected in provincial and municipal taxes was 6.37 per cent, and for all provinces the average was 5.11 per cent. For 1929 the percentage for Manitoba was 7.97, and the average for all provinces 5.28. For 1931 the percentage for Manitoba was 11.71 and for all provinces 8.29. For 1933, the last year for which figures are available, provincial and municipal taxes collected represented 14.36 per cent of income for Manitoba as against 10.34 per cent for all the provinces.

MR. PITBLADO: And the figures for the other years are shown in Table 1 of the Appendix.

THE CHAIRMAN: Are figures available showing the taxes by provinces?

PROFESSOR UPGREN: It is a very difficult matter to allocate them. Certain taxes certainly could be allocated but it is difficult in the case of customs and excise revenue to tell without knowing how much is consumed of the articles taxed.

THE CHAIRMAN: The average citizen is not so much concerned about the particular governmental body to which he pays his taxes as with the total taxation he is called upon to pay, and I was wondering if there was any means of arriving at the total taxation by provincial, Dominion and municipal governments.

PROFESSOR UPGREN: I do not believe there would be without some estimate of how much of taxed articles are consumed by provinces. I turn now to page 3 of the brief;

The average per capita debt of all provincial governments in Canada in 1926 was \$48.22. In Manitoba in that year the net per capita debt of the province was \$62.57. Thus we observe that in 1926 the provincial debt for each person in Manitoba was about \$14 higher than the average for all the provinces in Canada. But by 1935 the average total debt of all provinces had increased to \$103.67 for every person in Canada, while in Manitoba the increase was only to \$102.35. Thus it will be seen that in the years since 1926 the per capita debt of provincial governments in Canada more than doubled, but in Manitoba the increase was only two-thirds as great as for the Dominion as a whole.

Now I turn to Table 8 at the top of page 14, showing the net per capita debt of provinces only. The average for all provinces is given in the last line of the Table, entitled All Provinces. In 1926 we find that the average for all provinces was \$48.22 increasing in 1929 to \$56.07, and increasing again in 1932 to \$79.51 and in 1935 to \$103.67. For Manitoba the figures are for 1926, \$62.57; 1929, \$66.10; 1932, \$90.04, and for 1935 \$102.35. The increase in Manitoba per capita was approximately \$40 and for all provinces the increase was about \$55.

MR. PITBLADO: Another Table shows the figures for the years that are not shown in this table.

PROFESSOR UPGREN: Yes, Table J in the Appendix gives the figures for every year.

MR. PITBLADO: That Table appears on page 28 giving

the figures for the intervening years, if anyone wants to check them. You will see that the figures for Manitoba have gone up gradually, then they went down for one or two years, being down slightly in 1930, and after 1930 the net debt per capita kept going up quite gradually. It is suggested that the increase in the debt may be explained by Mr. Garson when he comes to present his brief dealing with finance.

MR. UPGREN: The purpose of this brief is merely to introduce the data, and the conclusions are being drawn, I believe, at a later stage. I turn now to the second paragraph on page three of the brief:

If we express this increase in per capita debt by means of index numbers, we find that for every \$100 of the total net debt of provincial governments in all Canada in 1926 there was, by 1935, \$249 of provincial debt. In Manitoba, however, the increase in the total net debt was only from \$100 to \$182.

That is the same percentage we have just had in terms of index numbers, with the starting point \$100 to show how much increase there may have been.

MR. PITBLADO: The government of Manitoba claims to be entitled to credit in that their debt has not gone up quite so much as some of the other provinces.

THE CHAIRMAN: The record is certainly no reflection on the government.

COMMISSIONER ANGUS: Just what does net debt mean? Is it that there are sinking funds?

PROFESSOR UPGREN: Sinking funds, current assets, self-sustaining enterprises. To continue with the brief:

Thus we find Manitoba to have been the

only province in Canada whose debt did not double in this period. In fact, its total debt increased relatively less than for any other Canadian province.

Then Table 9, the second table on page 14 gives the data that we have reviewed in Table 8. It gives index numbers of the net debt of the provinces, in order to facilitate a comparison, so that we are able to see, starting with \$100 of debt in 1926, how much of an increase there has been, as the figures across the page indicate. At the bottom of the table the figures are given for all provinces combined increasing from 100 in 1926 to 249 in 1935, indicating that for every \$100 of net provincial debt in 1926 there was \$249 in 1935 or an increase of more than two and a half fold for that period. Directing attention for a moment to Manitoba, her debt increased from 100 in 1926 to a figure of 182 in 1935. Those are the figures to which we have made references. I quote now the third paragraph on page three of the brief:

If we next consider the total net debt of the provincial government combined with the total debt of all the municipalities within our province, we find that for every \$100 of such debt for all the provinces of Canada in 1926 that there was \$164 of debt in 1934.

May I point out here that it is the total debt of municipalities because sinking funds and other items are extremely difficult to get, but we hope the Commission will secure that information so that the picture can be given on that basis as well as the one that we have been forced to use.

MR. PITBLADO: Why have you taken the year 1934 there?

PROFESSOR UPGREN: We have taken the last year we could get.

MR. PITBLADO: The last year for which statistics are available ?

PROFESSOR UPGREN: Yes. Turning to the brief again:

But in Manitoba there was only \$132. In fact, in Manitoba the total municipal and provincial indebtedness--

It is "net" in the latter case;

--increased only one-half as much as in all Canada. In other words, where provincial and municipal debt in Manitoba increased only by one-third, it increased by one-half or more in every other Canadian province.

Then Table 10 will be found on page 14 giving index numbers of combined provincial and municipal debt by provinces, and at the bottom of the page you will observe that the average is given for all provinces from 1926 through 1934, and it shows that starting with 100 in 1926 of municipal and provincial debt, there was an increase in 1934 to 164. In the case of Manitoba the figure of 100 in 1926 had increased to 132 in 1934, an increase of about one-half the rate of the average for all Canada.

MR. PITBLADO: I suppose that in giving the municipal debt the same principal is adopted as in the other case?

PROFESSOR UPGREN: It is on a comparable basis throughout. I turn again to page three of the brief:

These comparisons have all been on a per capita basis. We now make them in terms of income.

When we consider the net debt of the provinces alone as a percentage of income, we find that the debt of all of the provinces in 1935 was equal to 29 per cent of the income of the total Canadian population. In Manitoba, however,

where debt had increased relatively much less than in any other province, the debt in 1935 was nevertheless equal to 42 per cent of its income.

Then there is a reference to Table 11 which is to be found on page 15; It gives the net debt of provinces only as a percentage of income. In the bottom line the average for all provinces is given, and it indicates that the provincial debt of all provinces in Canada, expressed as percentage of income increased from 7.80 in 1926 to 29.20 in 1935. If we turn to the figures for Manitoba we find that the percentage of 11.50 in 1926 increased to 42.30 in 1935.

Turning again to the bottom of page 3 of the brief:

From 1926 to 1933 the total of provincial-- That is net: "--and municipal debt in all of Canada increased from \$160 to \$215, an increase of \$55. In Manitoba the increase for each person in the province in the same period was only \$40. Thus we see that while provincial and municipal debts in all Canada increased, the increase in the case of Manitoba was only four-fifths as great as that for the Dominion as a whole.

Here we may turn to Table 12 on page 16, which gives the overlapping debt, per capita of the provinces, and by that we mean, Dominion, provincial and municipal. The figures are given for "all provinces" in the last line for 1926 through 1933. If you will turn to the very last line of the Table, the total Canadian public debt per capita is given for the interest it may hold for anyone wanting to get the total debt figure per capita. The line immediately above indicates that the overlapping debt for all provinces was 159.48 in 1926, and that had increased to 214.96 in 1932; the difference gives the increase of 55 to which we have

referred. For Manitoba the increase was from 188 in 1926 to 228 in 1933, an increase of 40.

MR. PITBLADO: In that connection it might be well to turn to the last sentence on page 3 of the brief just to make it absolutely clear. It says, "from 1926 to 1933 the total of provincial and municipal debt in all of Canada increased from \$160 to \$215, an increase of \$55." That is per capita

PROFESSOR UPGREN: Continuing with the brief:

We have shown that while Manitoba's provincial and municipal debt increased only from \$100 in 1926 to \$132 in 1934, in all of Canada provincial and municipal debt increased twice as fast, or from \$100 to \$164. But in terms of income, the more greatly increased total municipal and provincial debt of all Canada was equal in 1933 to less than 70 per cent of the national income. Manitoba's smaller increased total municipal and provincial debt in the same year was equal to 98 per cent of the income of her people.

Then turning to Table 13, in the middle of page 16, here again at the very bottom line we have the total Canadian public debt expressed as a percentage of income, and in total Canadian public debt we include municipal, provincial and Dominion. It shows that the total Canadian public debt expressed as a percentage of income increased from 71 in 1926 to 155 per cent in 1933. Turning to the data for all provinces, and here including municipal and provincial debts, we have the figure of 25.80 as the percentage which that debt bore in 1926 to the income of the people of Canada, and that increased to 68.76 in 1933, as compared with Manitoba's figure of 34.70 in 1926, increasing to 97.81

in 1933, as compared with Saskatchewan's figure for 1933 of 101.89.

I turn now to the last paragraph on page four of the brief:

In summary;, we have shown that the net debt of Manitoba, as well as the combined provincial and municipal debt, increased far less than for any other province in Canada. Yet, despite this fact, as a result of the much greater decline in the income of the people of Manitoba, this small rate of increase was greater for Manitoba (and Saskatchewan) than for any of the other provinces of Canada when measured in relation to the income of the people.

We have now referred to each of the tables in the section, and in the Appendix the Tables give the same data for every year. Unless there are any questions I shall now conclude this presentation.

MR. PITBLADO: The other part of this brief, while it contains considerable written matter, is largely an exposition of the summary which you have already read, and the tables are explained fully as they are reached. Am I correct on that ?

PROFESSOR UPGREN: Yes.

MR. PITBLADO: And unless someone wants to ask any questions, you are content to leave them for the benefit of the Commission?

PROFESSOR UPGREN: That is right. I should like to file this Part V with the Commission.

EXHIBIT No. 5:	Part V of Manitoba's submission, dealing with "the effects of declining income"
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By Mr. St. Laurent:

Q. There are just one or two questions I would ask you, Dr. Upgren, I believe you stated that it was not possible

to get from the Year Book the amount of federal taxation paid by the provinces? A. That is right.

Q. But it is possible to get from the Year Book the amount of excise and war taxes and the amount of income tax allocated by provinces? We have that on page 830 of the Year Book, the excise war taxes for 1936, ending March 31 being \$116,471,000 odd, Manitoba's proportion of that being \$3,605,000 odd. Translating that into per capita in respect of a population in 1931 for the whole of Canada of 10,300,000, we get \$11 per capita for excise and war taxes, while for Manitoba, with a population of 700,000 and an amount of \$3,645,000 the per capita would be about \$5. A. That is right.

Q. With respect to income tax the amount given of \$82,709,000 would be about \$8 per capita for the whole of Canada, and for Manitoba, with \$2,204,596, about \$3 per capita. A. That is right.

(Page 225 follows)

Q. The table you have given on page 11, of municipal and provincial taxes, per capita, for the last year give thirty-three and fifty-five for Manitoba. Those are the figures for the last year for which you had accurate data available? A. Yes.

Q. That, added to the \$5 of excise and war taxes and \$3 of income tax, would be \$41 per capita? A. Yes.

Q. While for the whole of Canada the figure for the same year is thirty-two, thirty-two; and if there were added to that average for the whole of Canada the \$11 and \$8, \$19 in all, it would give \$52 per capita, compared with \$41? A. Yes.

Q. Of course, that leaves out of account the burden of customs which it is very difficult to allocate? A. And it adds 1936 taxes to 1933.

Q. It adds the 1936 taxes to 1933, but the 1936 tax is presumably not much lower than the 1933? A. I believe dominion taxes have increased substantially, but provincial taxes have not.

Q. Provincial and municipal taxes have not increased substantially from 1933 to 1936? A. I believe we have some material to be submitted in that regard. The taxes have increased, yes. New taxes have been added in the province.

Q. Have they been actually collected? A. I am afraid that in that connection I am anticipating a subsequent brief.

Q. We have to take these briefs as we have them?

A. Quite so.

Q. And there would appear to be this possibly differential of about \$11 per capita? A. In the main body of the text we have not emphasized per capita taxation

for the reason that we do not believe that taxing capacity can be measured in terms of heads but rather in terms of income, and I should like to reduce the figures to a more important comparison, namely, taxes in relation to income. That is a better measure of taxable ability.

Q. I am not speaking of taxable ability but of taxation liability which actually occurred. We have there this differential, which of course is not exact, because one portion of the calculation is 1933 and the other is 1936.

A. On that point I may say that brief Number 7 will contain a discussion of the question of income tax. At the moment I do not wish to anticipate it.

Q. Though, as I am sure, we all admire the fact that there had not been any abnormal increase in provincial debt, nevertheless, looking at the table on page 14, is it not only fair to say that, taking table 8 on that page, the first year for which figures were given is 1926?

A. Yes.

Q. And that at that time the per capita debt of Manitoba was 62.57 while for all the provinces it was 48.22?

A. That is right.

Q. And at the end of the period the per capital for Manitoba was 102.35, while for the whole of the provinces it was 103.67? A. Yes.

Q. Well, does not this tend to indicate that Manitoba had been a little ahead of the average by 1926 and that by 1935 the rest of Canada had caught up with this province? At any rate, those are the figures. A. There was a reason for taking the year 1926. Wishing to be consistent we used that year.

Q. But when we come to 1935, which is the last year, we find that we were all pretty much in the same boat?

A. Yes, and there again we prefer to base our measurement on income.

Q. With respect to income, there are of course percentage increases and percentage decreases, and I noticed something in connection with my province, regarding which I happen to have some knowledge. The year 1926 is the one that is usually used in these indexes as 100.

A. Yes, it is a very common year. It is arbitrary.

Q. Yes, it is arbitrary; and then there are declines shown from 1926 to the present time in the index figures?

A. Yes, especially after 1929.

Q. But with respect to the pulp and paper industry of eastern Canada, it is well known that 1929 was fifty per cent greater than 1926. Production went from 1,800,000 tons to 2,700,000 tons, so that our high was really 1929; and if the high were taken as 100 the comparable declines would look very much like the other figures. A. For wood pulp and paper. We have taken total income, and the proportion to total income would determine whether or not the difference had influenced the income figure.

Q. The proportion of exportable goods was very largely wood products? A. But we are speaking of income, not of exportable goods.

Q. To get back to income, I notice that in the Year-book there was a change made in the figures on that production, and the statistician warns us that the latter years are not comparable with the former, there having been a change in the basis of the net production figures. A. Table B, following page 18, gives at the bottom the revision that became available to us after the material was prepared for the 1937 Canada Year-book, which I believe came out late in September. We have added the figures

in table B at the bottom. The adjustments here are for the revisions that result from the 1931 census data, and they may make some correction. It may be that as they are constantly revising income figures other corrections will become apparent, and of course adjustments will be made accordingly. It happens that the adjustments that have come to us in table B-1 hardly affect these comparisons. Possibly later adjustments do, but we are compelled to await them.

Q. I understood you to say that these were not production figures and would not include the subsistence the farmer obtained from his farm. Have we figures for salable goods or services? A. Yes. The difficulty in calculating income would be to measure that factor, but we do the best we can.

Q. Do you know whether there has been, over that period of years, any variation in the subsistence income obtained by the farmers of Manitoba? A. I know of no place where one can get that. The farming population has not changed greatly, and it would be surprising if the structure of farming had varied much.

Q. You do not know whether there has been any considerable reversion to mixed farming during the last decade?

A. Without reference to the figures I could not answer that question offhand.

Q. Of course, you have not taken that into account. You have taken the income derived from things or services that were saleable? A. Neither did the Bureau of Statistics take it into consideration.

Q. That does not mean that the livelihood which the farmer derives from his farm is not real and does not represent real income? A. I am sure the Dominion Bureau would wish to get it.

Q. It does not get into the statistics but it is very real and contributes to the well-being of the community?

A. Yes.

Q. I understood you to say that Manitoba's farming population, compared to the urban population, was pretty much along the average for the whole of Canada?

A. Very roughly.

Q. But that average is not borne out in each of the individual provinces of Canada? A. Oh, no.

Q. Some of the eastern provinces are industrialized to a greater extent, and the statistics would show a larger proportion of their whole income as production income?

A. Except that agriculture is quite important even in Ontario.

Q. I am not disputing its importance anywhere.

A. It does not tend to effect differences between the provinces, though if it varies greatly, it does.

Q. The eastern provinces of Quebec and Ontario are, generally speaking, considerably more industrialized than the other provinces? A. Yes.

Q. So that the proportion of their total income that would appear in the net production figures would be greater than would be the proportion in the net production figures for the other provinces? A. Yes. There has been some change in the proportion of subsistence funds. That must be borne in mind in the first place; and secondly, the variation in the proportion of production represented by agriculture is great, so that you have those two points to consider.

Q. Since you had no figures with regard to federal taxation, how was it possible to arrive at the figures you give in table 7, page 12? A. That is only a

total. In this case it is income, and you can add that for all Canada. Add on top of that taxation of the dominion, as reported, which need not be allocated, then divide that total by population, and you have the percentage of income. That figure was given for

illustrative purposes. We have a recent book on Public Finance in which there is a similar calculation.

The statement is made there -- and this is something that we are all interested in -- that Great Britain has the highest taxation in the world, and it is arrived at in the same way.

Q. I am not disputing the fact that this is the usual method, but does this mean that with respect to provincial and municipal taxes you have the actual figures, the actual allocation by provinces? A. As reported in the Canada Year-book, yes.

Q. And with respect to dominion taxes, it is the per capita proportion of the amount raised for dominion purposes? A. No, it is merely the sum total, the aggregate. You add the municipal and provincial -- in this case it is taxes -- for one province; add that same amount for the second and add it for the third, and you get the municipal and provincial for all Canada. Take that aggregate and add to it the total taxation which is not allotted by provinces -- add it to the sum total -- and you get the total taxation to be compared with income.

Q. So that it is not the amount of taxation that the Canadian citizen in one province pays as compared with the amount which another Canadian citizen in another province pays; it is the total taxation raised by all the provinces of the dominion, divided by total population.

A. Yes. That figure was given as a matter of general interest.

MR. PITBLADO: Table 7 was the percentage of income collected, not the per capita percentage. That is not on the per capita basis; it is not on that basis that you are using it.

PROFESSOR UPGREN: The per capita for different countries would be without meaning, though for certain western countries it has an interest.

BY MR. ST. LAURENT:

Q. Income and annual taxes are something that afford the basis for a very good comparison, but when you come to compare total national debt with annual income you are comparing capital with income? A. In the text we say that we should like to compare that with wealth, but the trouble is that figures in respect to wealth are apt to be based largely upon assessors' figures. Assessors are probably disinclined to follow markets in their assessments; they are more interested in the problem of equality of treatment, and consequently wealth data based upon assessment data are frequently considered to be quite unsatisfactory. We therefore turn to the best comparison we can make, with income, and we know that in terms of individual budgets, when one builds a house the debt he incurs may bear a definite relation to his income, thus justifying a comparison of debt and income.

Q. In order to make the comparison fair it would be necessary to indicate that the amount of debt is so much, and that must mean the annual charge, the income being so much? A. Yes, that was given in the main part of the text.

Q. Table 11 leaves out the intermediate step and goes direct from debt to income. A. The tables cannot be plucked from the text in which they appear.

MR. PITBLADO: It does not leave out anything. May I ask, Mr. St. Laurent, what figure you gave with regard to income tax for the whole of Canada? In what year did you quote the \$3 for Manitoba?

MR. ST. LAURENT: 1936.

MR. PITBLADO: What is the figure for the whole of Canada?

MR. ST. LAURENT: The per capita for Canada was 8.

MR. PITBLADO: And Manitoba paid 3?

MR. ST. LAURENT: Yes.

MR. PITBLADO: What did the other provinces pay?

MR. ST. LAURENT: I have given you the per capita.

MR. PITBLADO: Income tax throughout Canada is charged on exactly the same basis, and the people of Manitoba did not avoid paying something they should have paid when they paid \$3 per capita. The inference might be drawn from what has been said that Manitoba had escaped paying something which the rest of Canada paid, but as a matter of fact we should have been glad to have been in the position of having an income that would bear a tax of \$11.

THE CHAIRMAN; Will you present your next brief now, Mr. Major?

PART VI
THE FINANCIAL PROBLEMS OF MUNICIPALITIES
AND SCHOOL DISTRICTS

HON. MR. MAJOR: I wish to present Part VI of Manitoba's case, and associated with me in its presentation is Mr. R.M. Fisher, K.C.

EXHIBIT NO.6: Part VI -- The Financial
Problems of Municipalities and School
Districts.

HON. MR. MAJOR: In this Section we propose to portray in summary form the administrative system of local government in Manitoba, and to indicate in what manner the financial affairs of the municipalities and school districts are related to those of the province. It is hoped that this submission, detailed and technical as it may appear, will provide a background for the submissions of the municipalities, so that their responsibilities, burdens and problems will receive the Commission's understanding and sympathetic consideration.

Under the heading "Historical background", and in the four succeeding paragraphs, we give a brief summary of the historical background of the institution and growth of municipal government in Manitoba. On page 2, under the heading "Local Government administration", we give an outline of the present administrative system of local government in Manitoba. There are 170 incorporated municipal units, consisting of 112 rural municipalities, five urban municipalities, 22 villages, 30 towns and one municipal district, which are in certain respects subject by statute to the jurisdiction of the Minister of Municipal Affairs, their accounts being audited by nine municipal auditors appointed by the Lieutenant-Governor in Council and paid by the municipalities in the manner set out.

The cities of Winnipeg, St. Boniface and Portage la Prairie have special charters, and with minor exceptions are not under the jurisdiction of the Minister of Municipal Affairs, their accounts being audited by auditors appointed by each city. The city of Brandon, which

originally had a special charter, is now governed by a number of special Acts and by general municipal legislation. Certain general legislation also applies to the city of Portage la Prairie.

THE CHAIRMAN: Do your relations cover the matter of borrowings?

HON. MR. MAJOR: Yes, my lord, we deal with borrowings. On page 3 we show, in paragraph 2, that the Lieutenant-Governor in Council has certain powers over the municipalities except Winnipeg. These powers are set out as follows:

1. The municipality may be supervised by requiring it annually to submit its financial programme for approval. If under supervision, all cheques may be countersigned by the supervisor.
2. The elected council may be discharged from office and in its place, and having all its powers, an administrator may be appointed.
3. The municipality may be disorganized and its affairs wound up by a receiver. In this case, the municipality ceases to function except for the purpose of winding up, and becomes part of unorganized territory."

At the present time there are six rural municipalities that have been disorganized, five rurals and one village are under administrators, and two cities, one town and four suburban municipalities are being supervised.

THE CHAIRMAN: Have you any power under your legislation to deal with the credit of municipalities and the question of financial liabilities?

HON. MR. MAJOR: Yes, my lord, and I shall come to that in a few moments. In addition to the municipal

units there are in Manitoba 2,270 school districts of varying types established under the provisions of the Public Schools Act. Of these, 254 are in the unorganized and disorganized parts of the province.

Normally, the control of the district is vested in a board of school trustees chosen by the electors of the district, but if the financial position of the school district is unsatisfactory it may be placed under the control of an official trustee appointed by the Lieutenant-Governor in Council. There are approximately 237 school districts under official trustees.

Within their delegated powers, and subject to the provisions of the Public Schools Act and the jurisdiction given under that Act to the Minister of Education, school districts are also self-governing units. They have power to borrow money and issue debentures, but do not, except in unorganized and disorganized territory, impose taxes.

In organized territory, apart from the general statutory school levies and government grants they requisition the municipality for their requirements, and the municipalities account to the school boards for the general and special levies. In unorganized and disorganized territory the school boards or official trustees levy and collect taxes under the supervision of the Manitoba Tax Commission. School districts in unorganized and disorganized territory are divided into nine groups, each in charge of an assessor-collector appointed by the Lieutenant-Governor in Council and supervised by the Manitoba tax Commission.

In the last paragraph on page 3 I deal with the Department of Municipal Affairs. The office was established in 1886 to take over the functions of the existing

judicial district boards. The municipal commissioner is a member of the executive council and the head of the Department of Municipal Affairs. His staff consists of a deputy minister, provincial municipal auditor, chief clerk and chief stenographer. In addition to this, we have the Manitoba Tax Commission. In 1920 the commission was established, mainly as the result of the recommendations of the Assessment and Taxation Commission, which reported in December, 1919.

The main functions of the Manitoba Tax Commission are to generally supervise the local municipal assessors and the administration of the assessment laws of the province, to make and revise the equalized assessment which forms the basis for the levying of the municipal commissioner's levy, and, under the Minister of Education, to supervise the assessing and levying of taxes in school districts in unorganized and disorganized territory.

Next I deal with the municipal and public utility board, indicating in some measure the control that is exercised over the borrowing powers of the municipalities. In 1926 the Municipal and Public Utility Board was created. It has special powers with respect to the financial affairs of local authorities, that is to say, municipalities and school districts. It approves of all capital borrowings except for the city of Winnipeg. That is, every municipality except Winnipeg desiring to increase its capital debt must first secure the approval of the Municipal and Public Utility Board. The Board is also empowered, when requested, to make special investigations into the financial affairs of any municipality or school district

except the city of Winnipeg and the Winnipeg school district. Subject to the approval of the Lieutenant-Governor in Council, the Board may appoint supervisors of local authorities, and upon certain conditions may recommend the adjustment of their indebtedness. A supervisor, when appointed, controls the annual estimates and expenditures of the local authority. There may be an appeal from the supervisor to the Board. The Board also has some general powers in connection with the approval of plans of subdivisions, the cancellation of existing plans, the compromise of arrears of taxes, and the variation or cancellation of building restriction caveats.

THE CHAIRMAN: Is there any power that compels the minority to accept a compromise?

HON. MR. MAJOR: The Board has power by statute to make adjustments, or to suggest adjustments. If the suggested adjustment is accepted by 52 per cent of the holders of capital indebtedness, then the order of the Board goes into effect; but we have not the power to compel the other portion of the holders to accept such an adjustment.

THE CHAIRMAN: What happens if 48 per cent do not choose to accept it?

HON. MR. MAJOR: If we cannot get a 52 per cent acceptance of the proposal, the statute empowers the Board to publish the suggestion, and unless it is opposed within two months by 20 per cent of the holders of capital bonds, then the order becomes effective. But as to compelling any of them to accept, we have no such power.

THE CHAIRMAN: That power exists in the province of Ontario but it is now being challenged in the courts.

The municipal board is empowered to deal with the reduction of indebtedness but, as I say, the power is now being challenged.

HON. MR. MAJOR: Yes, that is the point. I do not believe we have power to compel acceptance. Our statute provides that the award shall be binding; but as Your Lordship has observed, a similar statute in the province of Ontario is now being contested.

The next matter with which we deal in this part of our submission has reference to land drainage maintenance boards. This will be found on pages 4 and 5. In the last paragraph but one on page 5 I deal with municipal commissioner levies. When the office of the Municipal Commissioner was established in 1886 he took over the assets and assumed the liabilities of all the existing judicial district boards. The assets consisted of judicial buildings, and the liabilities were the debentures issued when the buildings were constructed. Originally, the Municipal Commissioner was authorized to levy on the municipalities within the judicial districts in the province, on the basis of an equalized assessment, the sums required to pay the interest and sinking funds for the retirement of the judicial district debentures and the expenses of the counties. These levies were first made in the year 1889. As the demand for services of a special nature arose, and money had to be provided therefor, the municipal Commissioner from time to time was required by statute to make additional levies to provide for these services.

Then I set forth the number of services that were established:

Provincial Board of Health, 1893 to 1925, both inclusive.

Manitoba Sanatorium for Tuberculosis, 1914 and still continuing

Patriotic Fund, 1916 to 1918, both inclusive.

Mothers' Allowance, or Child Welfare, 1916 to 1925, both inclusive

Supplementary Revenue, 1918 to 1929, both inclusive

Soldiers' Taxation Relief, 1924 and still continuing except for years 1931 and 1932

Old-Age Pensions, 1928 and still continuing

Good Roads, 1928 and still continuing against certain municipalities

Public Health Act, 1929 to 1930

Cancer Research, 1936 and still continuing.

At the bottom of page 6 we give a brief summary of the administrative system of local government in Manitoba, from which it is evident that the financial affairs of the municipalities and school districts are related to those of the province. On page 7 we briefly summarize these relationships. Throughout that page is set forth material regarding the Municipal Commissioner's levies. The province has financed the cost of certain projects for the benefit of municipalities, in some cases issuing provincial debentures and in other cases guaranteeing debentures issued by the municipalities. Under this head there are four classifications:

1. Judicial district debentures were issued partly by the province and partly by the judicial districts before they were taken over by the Municipal Commissioner. In each case the interest and sinking fund requirements are levied through

the Municipal Commissioner's levy.

2. The municipal share of certain highway costs was financed by the province and is recouped through annual levies made by the Municipal Commissioner.

3. The cost of construction of drainage works in land drainage districts was financed by the province, the province issuing the debentures against which it now holds municipal debentures for the adjusted portion assumed by the municipalities.

4. The province has guaranteed municipal good road debentures, which represent a share of the cost of construction of roads under the Good Roads Act, and debentures for the cost of municipal telephone systems.

On page 8, under the head "Local Government Financial Administration", we outline some of the main features of municipal financial administration. Generally speaking, municipal revenues are obtained from levies on land, personal property, business tax, poll tax, and licences. Undoubtedly, the main source of revenue is the levy on land.

Last paragraph at the bottom of page 8 points out that the municipal Act of this province provides that the annual rate to be levied by the municipality for general purposes in any year shall not exceed in the case of a rural municipality or a municipal district more than three cents on the dollar, and in the case of a city, town, or village more than two cents on the dollar, of assessed value of the whole rateable property within the corporation,

according to the revised assessment roll. This is exclusive of school, municipal Commissioner, and local improvement rates, as well as any rate imposed to pay principal and interest on an issue of debentures to pay off or retire debentures of the corporation, or to fund an operating deficit or current or past due liabilities, or to assume debt under the Land Drainage Arrangement Act of 1935.

Page 242 follows.

On page 9 we point out the limitations bearing upon the municipality. The second paragraph says that in municipalities having a population of not less than ten thousand the aggregate debenture debt, exclusive only of sinking funds actually on hand, shall not exceed the sum of two hundred dollars per head of the population of such municipality.

In municipalities having a population of not less than two thousand and not exceeding ten thousand the aggregate debenture debt, exclusive only of sinking funds actually on hand, shall not exceed the sum of one hundred and fifty dollars per head of the population of such municipality.

In municipalities having a population not exceeding two thousand the aggregate debenture debt, exclusive only of sinking funds actually on hand shall not exceed the sum of one hundred dollars per head of the population of such municipality.

However, the Municipal Board may authorize a municipality to incur a debt or debts which will increase the aggregate debenture debt of such municipality to an amount exceeding the limitations mentioned.

THE CHAIRMAN: What is the point?

HON. MR. MAJOR: There have been a few occasions where the municipality and the public utility board have given their authorization. This has happened in cases of emergency such as sanitary services having to be supplied, or something like that where debentures have to be raised. The municipality in that case has secured the consent of the municipal and public utility board.

Now, we have a lot of material which we should like to make available to the Commission. We have indicated at the bottom of page 9 what the material consists of.

It has not been set forth in detail in this brief because it would take up too much space. Mr. Fisher is here with the material and would willingly explain any portion of it to the Commission or to its officers.

THE CHAIRMAN: I do not think it is necessary to cover the record with it if it is understood that it will be made available to the Commissioners at a later date in case they desire to examine it.

HON. MR. MAJOR: Yes. There is available information respecting municipalities for the year 1936. We shall be glad indeed to make all that we have available to any member. On page 10 we deal with general submission on municipal finance. I should like to direct your attention to the table on page 11. The table on page 11 is a breakdown of municipal assessment figures in Manitoba for the Year 1936. In column 1 the gross assessment value is shown. This includes cities as well as other municipalities. The total is \$636,840,890. In column 3 we find the assessment on real estate is shown at \$461,402,958. In column 6 the total assessment is shown \$477,221,364. In column 7 is shown the assessed value of tax certificates held by the Municipalities.

THE CHAIRMAN: What are they?

HON. MR. MAJOR: These are lands offered for sale and bought in by the Municipality. The Municipality holds Tax Sales Certificate. If you look at column 2 you will find a list there of the value of the exemptions, which includes the lands obtained by the municipality through tax sales; in other words, redemption not having been made the tax sales certificate was deposited with the Registrar and title was issued to the municipality.

Maj

MajorMR. PITBLADO: The total of certificate, Mr.

Major, is before the time has expired that the land actually passes to the owner of these certificates; is that correct?

HON. MR. MAJOR: That is in column 7.

MR. PITBLADO: These lands are redeemable, but the certificates are held by the municipality.

MR. MAJOR: Yes.

COMMISSIONER SIROIS: What are the other exemptions?

MR. MAJOR: There are certain local lands, church properties and other properties that are more specifically mentioned in the statute. Of the total gross assessment of \$636,840,890 the net live assessment is \$448,248,833, as shown in the last column.

This is done for the purpose of pointing out that the main source of municipal revenue is a levy on land.

THE CHAIRMAN: What do you deduct from your total assessment to get your net live assessment?

HON. MR. MAJOR: The amounts in columns 2 and 7 are deducted.

THE CHAIRMAN: The amounts set out in column 2 and column 7?

HON. MR. MAJOR: Yes. Column 4 gives the personal property assessment and column 5 the business tax assessment. Now, I would like you to turn to page 24. Column 3 indicates that the municipal assessment increased from 1905 to 1922. In that year the assessment figure was at its highest point in the province. At that time the population was 573,289, and the assessment was \$681,203,084. From that year onwards they had steady declines. In 1936 the population was 648,048 and the assessments had fallen to \$477,221,364.

THE CHAIRMAN: I suppose the year 1922 marks the gross of the post war real estate value.

HON. MR. MAJOR: I would take it to be so. In these years the assessments were higher than any other year in the history of municipal institutions in this province. During the same period the equalized assessment made by the Tax Commission which includes the value of farm buildings, had fallen from \$764, 784,000, in 1922 to \$458,390,000 in 1936.

THE CHAIRMAN: What is the difference between municipal assessment and equalized assessment.

HON. MR. MAJOR: The tax commission has to equalize the assessment for the purpose of the commissioner's levy.

THE CHAIRMAN: The \$764 million and the \$680 million represents the difference in the municipal tax and the Commissioner's tax?

HON. MR. MAJOR: No. As far as the municipal tax is concerned I point that out in another column my Lord. If you will turn to column 7 you will find the total municipal tax imposed.

THE CHAIRMAN: I do not understand what the \$764, 784,000 means.

HON. MR. MAJOR: \$764,784,000 was the amount of the equalized assessment determined by the Manitoba tax commission in the year 1922. It was determined for the purpose of levying the municipal commissioner's levy.

THE CHAIRMAN: The municipal tax commissioner valued the lands at a higher figure than the municipalities themselves.

HON. MR. MAJOR: Yes. That is the whole of the equalized assessment, the assessment over the whole of the province.

COMMISSIONER SIROIS: In 1936 it was the other way.

HON. MR. MAJOR: In 1936 it was smaller than the municipal assessment, yes. The first column is the total of the assessed value as determined by the local, municipal assessors.

COMMISSIONER SIROIS: \$477 millions.

HON. MR. MAJOR: Yes. But the next column is the total determined by one body, the Manitoba tax commission. They have to advise the municipal commissioner insofar as the levy affects the various purposes I outlined a moment ago. In 1936 the tax commissioner determined that the total assessed value of the province was less than what the local municipal assessor determined.

HON. MR. SIROIS: Did they collect on the \$555,000,000 or the \$477,000,000.

HON. MR. MAJOR: That is the assessed value. You realize that some municipal assessors will assess higher than others; then, we have at least one hundred assessors in the province. The tax commission is one body and this is the assessed value of the lands.

THE CHAIRMAN: The \$477 million represents the assessment in the municipalities from which the municipal tax would be collected.

HON. MR. MAJOR: Yes.

THE CHAIRMAN: The \$458 millions represents the assessment made by the taxation commissioner, on which the tax levied by the tax commissioner would be assessed.

HON. MR. MAJOR: Yes, but instead of saying taxation commissioner you should say the amount upon which the tax levied by the province under the municipal commissioners levy is collected.

THE CHAIRMAN: Levied by the province and known as the municipal commissioners levy.

HON. MR. MAJOR: Yes, that is correct. If you go

to column 7 you will find for a population of, 283,059 in 1905 the total municipal tax levy was \$3,441,961.78.

THE CHAIRMAN: What page was that on.

HON. MR. MAJOR: On page 24, my Lord, column 7 under the heading "Total Municipal Taxes Imposed". The total municipal taxes imposed in 1905 was \$3,441,961 which amounted to a per capita levy of 12.16. In 1922, the year in which the municipal assessments were the highest, we had a population of 573,289 and the municipal tax levy was \$22,163,682, which was a per capita levy of \$38.66. In 1936 the levies were lower even after the assumption by certain municipalities for drainage debt. In 1936 the total municipal taxes imposed were \$18,054,688.30 for a population of \$648,048 or a per capita levy of \$27.86. While the municipal assessments were 2.87 per cent lower in 1936 than they were in 1913 the municipal tax levies in the same period had nearly doubled.

If you look at column 8 you will find the municipal tax arrears. The statistics for tax arrears are available from the year 1922 only. In 1922 there were \$17,469,509.02 of tax arrears; whilst the tax sales certificates and agreements for sale are substantially less than the total levy for the year, which was \$477,221,364. In 1936 the total tax arrears certificates, titles on agreements amounted to \$35,321,132.86, making a total of arrears almost double the 1936 municipal revenue, which was \$18,054,000.

THE CHAIRMAN: The arrears for the year 1926 is the accumulated arrears still standing on the books of the municipalities in 1936.

HON. MR. MAJOR: The accumulated arrears. In columns 9 and 10 are shown in tabulated form the municipal debenture and how it has grown from year to year, also the school debenture debt. The total of these two amounts is approximately \$112. million. I should like you now to turn to page 12 where you will see the total capital debt chargeable against land, the book value of the sinking funds and the distribution of the debt amongst the various groups of municipalities. Table No. 2 as shown on page 12 gives the debt for the years 1922 and 1926 on unmatured municipal debentures and the deferred liabilities, unmatured drainage, judicial debentures and the public school debentures unmatured and unpaid. You will notice that in 1922 the total capital debt was \$94,617,653.27. In 1936 it had amounted to \$114,010,180.85. The sinking fund in 1922 amounted to \$21,555,106.26 and in 1936 to \$43,785,454.54. That is the book value of the sinking funds, leaving the net debts unmatured in 1936 \$70,224,726.31 as compared with \$73,062,547.01 in 1922. But in addition to the amount I have mentioned here there are also matured obligations and unpaid deferred liabilities which are shown on page 13.

THE CHAIRMAN: You have a note here on the book value of the sinking fund.

HON. MR. MAJOR: Yes.

THE CHAIRMAN: Is there any intimation as to their real value so that we may arrive at their net debt.

HON. MR. MAJOR: We have no evidence right before us at the moment as to their actual value but we have the details of these sinking funds in the material which we promised to make available to the Commission. I can't answer your question specifically at the moment,

On page 13 we show the unmatured capital obligations and deferred liabilities under the heading of "Municipal Defaults". On page 13, my Lord, we show what amounts are outstanding as unmatured capital obligation in deferred liability. You will notice that they are set out under the various headings: Rurals, Villages, Towns, Suburbans, St. Boniface, debentures matured and unpaid. Below that we set out Deferred Liabilities under the headings: Rurals, Villages, Towns. The total is \$3,638,234.99.

THE CHAIRMAN: Mr. Major, referring to the sinking fund of the municipalities, who supervises the investment of these funds.

HON. MR. MAJOR: The supervision is done by the Councils of the various municipalities.

THE CHAIRMAN: And checked by the municipal auditor.

HON. MR. MAJOR: And checked by the municipal auditor. Of course, in the City of Winnipeg that is done by a special sinking fund board of auditors.

THE CHAIRMAN: Have you reason to think that the book value differs materially from the real value.

HON. MR. MAJOR: Yes, I have good reason to think so; in certain cases particularly. Under the heading of "Provincial Aid to Local Government Units" we deal with the manner in which the government of the province has realized the increasing financial difficulties of local government units and what assistance has been given by the province of Manitoba having regard to its own decreasing revenue and its added responsibilities.

Under the heading of "Municipal commissioner's levies" - and here I would ask you to turn to page 25 where you will find a table showing the distribution of

municipal commissioner's levies and elimination of certain levies. The levy on land has varied from time to time. As demands for services of a special nature arose the municipal commissioner was empowered by statute to make levies to provide the funds for these things. Appendix B on page 25 shows the total of municipal commissioner's levies from the year 1905 to the year 1936. The first column covers the indebtedness of the judicial buildings in the judicial districts. The second is the provincial board of health that started in 1905 and continued until the year 1930 when the statute was repealed and the levy was eliminated. The next column shows the sanitarium; that is the sanitarium for tuberculosis and for which annually a levy is made at the express request of the municipality. That still continues. That levy is not made against the city of Winnipeg by reason of the fact that it contributes a per diem allowance for every patient that goes in the sanitarium.

THE CHAIRMAN: There is no levy being paid now in respect of the board of health.

HON. MR. MAJOR: No, my Lord. The next column is really a war levy. The column following that is a supplementary revenue letter. That is a levy imposed to assist the general funds of the province and that continued --

THE CHAIRMAN: Is that a tax on land?

HON. MR. MAJOR: That is a tax on land. All these are taxes on land, my Lord. A certain sum of money was levied on the municipalities according to the equalized assessment and it continued as you see there for a number of years. It was discontinued in 1929.

The next column shows mothers' allowance and child welfare. This is a pension paid to widows. That was a levy on land and continued for a period of years being discontinued in the year 1930.

THE CHAIRMAN: You say discontinued. Was the service discontinued?

HON. MR. MAJOR: As a levy on land?

THE CHAIRMAN: Was the service discontinued?

HON. MR. MAJOR: The service is maintained the levy on land was abandoned and the province had to raise the revenue in some other manner. The next column is headed "Soldiers' Taxation Relief". It reached a considerable sum at one time and it is now down to \$17,500,000. The next column is "Old Age Pensions Levy". This amounts to 50 per cent of the portion the province has to pay towards old age pensions. The next item is "Cancer Research", which the municipalities themselves requested to be levied. The next column is headed "Miscellaneous" and the last column "Good Roads". The last column applies only to certain municipalities.

On page 14, my Lord, you will find Table 3 which shows in detail the elimination that the province has made for the purpose of relieving land from the burden imposed upon it. They are eliminations from the municipal commissioner's levies; there are five of them. The table shows the year imposed and the year eliminated. The total amount received from these impositions was \$21,046,905.92. The table shows also the period the levies ran, the greatest annual levy and the year in which that was to be found. In addition to these eliminations the old age pension levy was reduced in 1930 when the Dominion Government increased its contributions to old age pensions. The soldiers' taxation relief levy was eliminated in 1931-1932, but imposed in 1933

It was substantially reduced, falling from \$150,000 in 1930 to \$17,500 in 1936. Then follows a table showing the gradual increase and subsequent reduction of the Municipal Commissioner's levy over a period of years. It should be pointed out that to the extent the services, for which these eliminated levies were imposed, have been continued or increased, the province has had to find the necessary revenue by increasing taxation or reducing controllable expenditures. Then, in addition to these ~~levies~~ there was The Unoccupied Land Tax which was first imposed in 1918 for the purpose of supplementing the revenues of the province and was repealed as a source of provincial revenue in 1931. It was further provided in 1936 that upon a municipality paying over all moneys collected prior to April 20, 1931, the Municipal Commissioner might release and discharge the municipality from liability to account for or pay over moneys thereafter collected from said levies. Between 1918 and 1932 the province received the following amounts from the Unoccupied Land Tax: \$1,184,999.94. The amount of revenue \$1,184,999.94 was the actual amount of receipts not the actual amount levied. Then in addition there was an item of \$1,193,763.38, which was accumulated for relief extended to municipalities under the Soldiers' Taxation Relief Act. That debt had to be assumed by the province. Then, there was certain land drainage indebtedness owing by land drainage districts which was readjusted in the year 1936 and the province had to assume \$1,782,897.19 of the indebtedness. In addition there was relief extended to the drought areas. Thirteen municipalities had their indebtedness written off to the extent of \$1,142,415.00. This was all done for the purpose of relieving the burden upon lands.

Last year the Province found it necessary to reduce the general statutory school levy on land by 10 per cent. To take its place the grants to schools were increased by that amount.

THE CHAIRMAN: The general statutory school levy does not come under the Commissioner's assessment. The general statutory school levy is an additional tax on land.

HON. MR. MAJOR: That is an additional tax on land, yes. It is half past four and I know the commissioners have another appointment. If it is agreeable to the commissioners I shall continue in the morning.

THE CHAIRMAN: Yes. We shall adjourn now until tomorrow at 10.30.

(The Commission Adjourned
at 4.30 until 10.30 tomorrow)

ROYAL COMMISSION ON DOMINION PROVINCIAL RELATIONS

REPORT OF PROCEEDINGS

Official Reporters:

H. E. Oliver
T. S. Hubbard



WINNIPEG, MANITOBA, DECEMBER 1, 1937

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ROYAL COMMISSION ON DOMINION-PROVINCIAL RELATIONS

WINNIPEG, MANITOBA, DECEMBER 1, 1937

The Royal Commission appointed to re-examine the economic and financial basis of Confederation and the distribution of legislative powers in the light of the economic and social developments of the last seventy years, met at the Law Courts, Winnipeg, Manitoba, on Wednesday, December 1, 1937, at 10.30 a.m.

PRESENT:

HON. NEWTON W. ROWELL.....CHAIRMAN

DR. JOSEPH SIROIS)	
JOHN W. DAFOE, Esq.)	
DR. ROBERT ALEXANDER MacKAY	)	Commissioners
PROFESSOR HENRY FORBES ANGUS)	

Commission Counsel:

Louis S. St.Laurent, Esq., K.C.

Secretariat:

Alexander Skelton, Esq.	Secretary
R. M. Fowler, Esq.	Legal Secretary
Wilfrid Eggleston, Esq.	Assistant to the Secretary
Adjutor Savard, Esq.	Secretaire Francais

FOR THE MANITOBA GOVERNMENT:

Honourable John Bracken,	Premier
Honourable William J. Major,	Attorney General
Honourable Stuart Garson,	Provincial Treasurer
John Allen, K.C.	Deputy Attorney General
Isaac Pitblado, K.C.	Counsel

FOR THE PROVINCE OF BRITISH COLUMBIA:

Senator J. W. Farris, K.C. Counsel

FOR THE PROVINCE OF ONTARIO:

D. W. Lang, K.C. Counsel

FOR THE PROVINCE OF SASKATCHEWAN:

Honourable T. C. Davis, K.C. Attorney General

.....

Law Courts,
Winnipeg, Manitoba,
December 1, 1937.

MORNING SESSION

The Commission met at 10.30 a.m.

HON. MR. MAJOR: At the adjournment, my Lord, we were at page 16 of Part VI of Manitoba's submission. I was dealing with the annual grants for schools and relief:

"In 1937 the province reduced the general statutory school levy on land by 10 per cent and increased grants to schools by a like amount."

I might say that under our Public Schools Act the council of the municipality is required to make a general levy on the land in the municipality for an amount equivalent to so much per day for two hundred days.

THE CHAIRMAN: Under your law are they bound to continue to levy and pay over to the school board regardless of whether they are able to collect the tax or not?

HON. MR. MAJOR: They are required by the law to pay it over, but seldom is the full amount required by the school trustees paid over, and there is a large amount of accumulated arrears which have not been collected and consequently have not been paid over to the school districts.

THE CHAIRMAN: In some of the briefs that are to come before us later, complaint is made by some municipalities that one of their difficulties in maintaining their services which they are themselves bound to maintain is that they are required to pay over to the school board and some other bodies the monies that are levied, even though they are not collected. Have you any view on that, whether it is fair or unfair to the municipalities?

HON. MR. MAJOR: Under the statute the school board has power to sue a municipality that refuses to pay over the amounts required of it. The question of whether it is

fair or unfair is quite pertinent.

THE CHAIRMAN: The same situation exists in Ontario, and I know it causes complaint there too.

HON. MR. MAJOR: Yes.

THE CHAIRMAN: I have no information on it one way or the other, but as the complaint is raised in some of the briefs to come before us later from municipalities, I wondered if you as minister in charge of municipal affairs had given consideration to that and could throw any light upon it.

HON. MR. MAJOR: A school board is a spending body, but it is not a tax-raising body. Under the Act it makes a demand on the rural municipality, and the municipality is bound by the Act to levy and pay over the tax, and power is given to the school board to sue. In other words the council of the municipality, the body responsible to the people for the raising of taxation, has no control or power over the monies that the school board requires for the administration of the schools in the municipality.

THE CHAIRMAN: As head of the department of Municipal Affairs can you tell us whether in your opinion any injustice has arisen in the administration of the law in this province due to that fact?

HON. MR. MAJOR: I would not like to say that there has been any injustice done, except if there has been any injustice done at all it has been to the schools and to the school teachers. I do not think the school districts, with very few exceptions anyway, ask for an unreasonable sum of money to conduct the necessary educational services. The difficulty arises, of course, from the inability of the rural municipal councils to collect the money that is required, and that is due to the inability of the taxpayer to pay.

I have already mentioned that there is a general

levy of so much per teacher per annum. In addition there is a special levy. In cases where a school district is unable to balance its budget with the grant made from the government and the general levy that I have mentioned, then it asks the rural municipality to levy an amount to make up the deficit, and that is done by means of a special levy.

Turning to the brief again, I next deal with certain groups of local government units, and we propose to make brief reference to the problems that particularly affect specific groups of local government units. I will deal first with the rural municipalities, which appears at the bottom of page 16 of the brief:

" Rural Municipalities

In 1936 the 112 rural municipalities in Manitoba had unmatured capital liabilities of \$6,667,870.50, with total sinking funds having a book value of \$46,450.18--

That is a book value:

" --and a total net immediate cash deficit, that is total current liabilities, including matured capital liabilities and sinking fund deficits less cash on hand, of \$4,818,934.00.

Total assessments were reduced from \$239,487,250.00 in 1930 to \$200,692,686.00 in 1936. Their net live assessment in 1936 was only \$182,759,401.00. The 1936 tax levy amounted to \$5,091,418.01. In spite of the reduction in uncontrollable school levies, the percentage of uncontrollable expense to total expense in 1936 was 55.71 per cent.

THE CHAIRMAN: You mean by "uncontrollable" the debt service?

HON. MR. MAJOR: Yes, the debt service, school levies, and so forth, over which they have no control. To continue:

"Tax arrears of rural municipalities amounted to \$10,827,767.26. The operating loss in 1936 of 38 rural municipalities, amounting to \$399,108.28 was distributed as follows:

Drought Area Municipalities (15)	\$254,614.60
Sub-Marginal Municipalities (13)	97,112.19
Others (10)	<u>47,381.49</u>
	\$399,108.28

Between 1930 and 1936 tax levies were reduced by \$2,174,932.73, and tax arrears had increased by \$2,290,014.02, which included approximately \$1,000,000 of arrears of drainage levies."

THE CHAIRMAN: Of course, one understands the difficulties of the municipalities in the drought areas, but how about the position of the rural municipalities in the portions of the province which had reasonably good crops?

HON. MR. MAJOR: In a number of municipalities I am happy to say that the councils have realized the problems with which they were faced and have done their utmost in effecting economies, and many of them are now on a cash basis. In that respect their position has improved although their services, of course, have been very seriously impaired. They have been unable to maintain the services they are expected to maintain.

THE CHAIRMAN: Has the control which the department exercises over borrowing by the municipalities resulted in the debenture debt being kept within reasonable limits in these municipalities?

HON. MR. MAJOR: That is our opinion, my Lord. I think there has been very little increase in the debenture debt for some time, unless it be in the borrowings for unemployment relief.

THE CHAIRMAN: The current liabilities seem very

large. Is that because they run behind without fresh debenture borrowing?

HON. MR. MAJOR: No, I would not say they have been running behind without fresh debenture borrowing. I would say it was simply because of their inability to collect money from the taxpayers to meet obligations they have to meet.

THE CHAIRMAN: Thank you.

HON. MR. MAJOR: Turning again to the brief:

"While rural municipalities have made reductions in expenditures, these reductions have been made at the expense of essential services. A comparison of the distribution of the total expense of rural municipalities for the years 1931 and 1936 is as follows:

Purpose	1931	1936
Education	\$2,716,264.34	\$1,797,445.49
Public Works	1,935,635.87	1,059,645.42
Social Services	255,796.74	560,212.78
All other purposes	1,755,536.18	1,864,948.59
Total	<hr/> \$5,763,233.13	<hr/> \$5,282,252.28

THE CHAIRMAN: Has the reduced expenditure for education come principally out of school teachers' salaries?

HON. MR. MAJOR: A very large proportion has, my Lord, as I mention later on. It will be noticed that a very large increase has taken place in the expenditure for social purposes between 1931 and 1936.

THE CHAIRMAN: Are these services which are imposed upon the municipality by the provincial legislature?

HON. MR. MAJOR: It is largely the share of unemployment relief costs.

THE CHAIRMAN: What percentage of the costs of unem-

ployment relief do you require the municipalities to provide?

HON. MR. MAJOR: It varies to some extent. For instance, in one municipality in the vicinity of Winnipeg the government has to pay all the costs of unemployment relief, but in the majority of municipalities I think the proportion to be paid by the rural municipalities is about one-third, from 28 per cent to 33 1/3 per cent.

THE CHAIRMAN: All the other services are maintained at the same standard except education?

HON. MR. MAJOR: Except education, yes, but in the last five years considerable development work in the building of roads and the maintenance of roads has had to be left undone. They have not been able to spend anymore in 1936 than in 1931.

Turning to the brief again:

"A decreasing base of taxation, the accumulation of tax arrears, the substantial reduction in expenditures for education, and the increasing cost of social services, are the outstanding features of rural municipal finance. In some of the municipalities in the sub-marginal areas some adjustments of capital debt may be necessary, and the future of the drought area will depend principally on moisture conditions. Rural municipalities apart from the sub-marginal and drought areas have been able to maintain their position to some degree only by the drastic curtailment of services that must ultimately be resumed and that will impose an additional burden on future revenues, which, it is evident from past experience, will prove unequal to the need. As regards sub-marginal and

drought areas, their share of the cost of education and social services must be brought more in line with their ability to pay.

At the bottom of page 17 of the brief and continued on the next page is a summary of a study made by Professor Grant of the rural municipalities of Manitoba. It shows the assessment per farm acre, as compared with the assessment per improved acre; the total tax imposed per farm acre; the total tax imposed per improved acre; the total municipal taxes collected per farm acre, as compared with the total municipal taxes collected per improved acre.

THE CHAIRMAN: Just read those paragraphs, please.

HON. MR. MAJOR: Certainly:

"Assessment per Farm Acre.--The total assessment divided by the number of farm acres in the municipality yields the following results. The average assessment per farm acre for rural municipalities of Manitoba is \$13.47. The range is from \$27.94 to \$41.19. There are twenty-seven municipalities in which the assessment per farm acre is less than \$10.00 and nine municipalities in which the assessment per farm acre is over \$20.00"

The rest varies between \$10 and \$20:

"Assessment per Improved Acre.--The assessment per improved acre is more indicative of the ability to pay because it relates the intensity of cultivation to assessments. The average assessment per improved acre is \$25.91 and the range is from \$57.90 to \$12.66. There are nine municipalities which have an assessment per improved acre of under \$15.00 and sixteen with an assessment over \$30.00."

Now we come to the total tax imposed per farm acre:

"Total Tax imposed per Farm Acre.--The average

of total taxes imposed per farm acre is 32 cents. The range is from 77 cents to 18 cents. There are seven municipalities which impose taxes of under 20 cents per farm acre and twenty which impose taxes of over 40 cents per farm acre.

Total Tax Imposed per Improved Acre.--The average total tax imposed per improved acre is 73 cents. Taxes range from \$3.93 down to 26 cents per acre. Forty-eight municipalities impose less than 50 cents and sixteen over \$1.00 per improved acre!

Now I deal with the total municipal taxes collected per farm acre. The one before dealt with the total tax imposed. Now we deal with the total tax collected:

"Total Municipal Taxes Collected per Farm Acre.--The average under this heading is 27 cents per acre, with a range from 75 cents to 8 cents. Twelve municipalities collect less than 15 cents per farm acre and nine collect over 45 cents per farm acre."

The next paragraph gives the taxes collected per improved acre:

"Total Municipal Taxes Collected per Improved Acre.--Taxes collected per improved acre average 57 cents. The range is from \$2.59 to 11 cents. There are twenty-one municipalities which have a tax income of less than 30 cents per improved acre and twenty-eight which collect over 60 cents per improved acre."

The next item is tax arrears per farm acre:

"Unpaid taxes average 45 cents per acre for the rural municipalities of Manitoba. The highest tax delinquency per farm acre is \$1.32 and the lowest is 16 cents. There are fourteen municipalities in which tax arrears are under 25 cents and thirty-one municipalities in which they are over 50 cents per farm acre.

Tax Arrears per Improved Acre.--The average for the province is \$1.05 and the range from \$7.60 to 42 cents. In twenty-eight municipalities tax arrears per improved acre are under 50 cents, while in thirty-one municipalities they are over \$1.00."

The next is the Villages and Towns group:

"In 1936 the 53 villages and towns in Manitoba, including the municipal district of Flin Flon, had unmatured capital liabilities of \$3,050,027.63, with total sinking funds having a book value of \$462,885.16 and a total net immediate cash deficit, including matured capital liabilities and sinking fund deficits, of \$469,452.00"

THE CHAIRMAN: I notice you say "unmatured capital liabilities".

HON. MR. MAJOR: Yes.

THE CHAIRMAN: Does that mean debenture debt, or is there some other form of obligation unmatured?

HON. MR. MAJOR: I think that is the unmatured debenture debt. To continue:

"Total assessments were reduced from \$31,123,658. in 1930 to \$29,778,379.00 in 1936. Their net live assessment in 1936 was \$27,003,088.00. The 1936 tax levy amounted to \$1,234,557.71. In spite of the reduction in uncontrollable school levies, the percentage of uncontrollable expense to total expense was 51.09 per cent. Between 1930 and 1936 tax levies were reduced by \$63,863.58 and tax arrears increased by \$627,669.10. The operating loss of 30 towns and villages in 1936 was \$59,401.54. A comparison of the distribution of the total expense for towns and villages for the years 1931 and 1936 is as follows:

<u>Purpose</u>	1931	1936
Education	\$519,033.66	\$443,939.34
Public Works	226,455.28	160,646.54
Social Services	84,376.50	153,500.93
All other pur- poses	<u>630,075.63</u>	<u>592,522.52</u>
	\$1,459,941.07	\$1,350,609.33

THE CHAIRMAN: You have not any figures as to the number of municipalities which are balancing their budgets?

HON. MR. MAJOR: Yes, we have that here, my Lord.

THE CHAIRMAN: Shall we come to that later?

HON. MR. MAJOR: We have that among the records, but we have not put it in the brief. I can have a statement prepared for you.

THE CHAIRMAN: I mean approximately, just to get a general idea of the situation.

MR. R. M. FISHER (Deputy Municipal Commissioner, Man): I will go over to the office, my Lord, and get a statement of that for each member of the Commission, if you so desire. I furnished Mr. Skelton yesterday with 25 copies, but unfortunately he took them down to the hotel.

THE CHAIRMAN: I just wanted to get a general idea how far your municipalities, rural and cities and towns, were now balancing their budgets.

HON. MR. BRACKEN: Over half of them are balancing their budgets.

HON. MR. MAJOR: Considerably over half of the rural municipalities. I have a statement here issued by the Municipal Commissioner's Department, dated July 1, 1937, which shows that of 112 rural municipalities, 26 were operating on a cash basis in 1931, 25 in 1932, 87 in 1933, 89 in 1934, 18 in 1935, and that had increased to 74 in 1936. That is, out of a total of 112 rural municipalities 74 were operating

on a cash basis in 1936. As far as the Villages are concerned, out of a total of 22 villages, 5 were on a cash basis in 1931, 15 in 1932, 17 in 1933, 16 in 1934, 10 in 1935, and 9 in 1936. Of 31 towns, 9 were operating on a cash basis in 1931, 12 in 1932, 19 in 1933, 14 in 1934, 15 in 1935, and 14 in 1936.

THE CHAIRMAN: The rural municipalities, then, are doing better relatively than the villages and towns?

HON. MR. MAJOR: They are making a terrific effort to get on a cash basis, but as I have said, it is at the sacrifice of education and other services.

THE CHAIRMAN: The percentage of rural municipalities operating on a cash basis is much higher than the percentage for the villages or towns?

HON. MR. MAJOR: Yes, my Lord.

THE CHAIRMAN: Does that arise from the fact that there is more relief in the villages and towns? I was just wondering about that.

HON. MR. MAJOR: Oh, undoubtedly, but it has been at the cost of starving services. There is one other group of municipalities operating on a cash basis, the suburban municipalities of which there are five. One of them was operating on a cash basis in 1931, 1 in 1932, none in 1933, none in 1934, one in 1935, and one in 1936. I have not dealt with the cities there, my Lord.

THE CHAIRMAN: The cities are not given on that statement?

HON. MR. MAJOR: We deal with the City of Winnipeg in this brief, but we have not the statistics for the other cities. Turning to the brief again, on page 19:

"A decreasing tax base, the accumulation of tax arrears, the substantial reduction in expenditures for education, the failure to adequately maintain

public works, and the increasing cost of social services are the more important features of the finances of towns and villages."

I deal next with the Town of Transcona:

"The town of Transcona in 1936 had unmatured capital liabilities of \$1,069,964.77, with a sinking fund of \$394.67 and an immediate cash deficit of \$164,350.21. Its total assessment in 1930 was \$2,049,290.000 and in 1936 \$2,060,890.00. Its net live assessment in 1936 was \$1,910,890.000. The 1936 tax levy amounted to \$129,668.15. Between 1930 and 1936 tax levies were reduced by \$7,477 51 and tax arrears increased by \$68,301.58. It is interesting to note that in 1936 the total unmatured capital liabilities and immediate cash deficit amounted to \$1,234,314.98 and the total tax arrears to \$1,245,001.64, while the total net live assessment was only \$1,910,890.000. Transcona has defaulted in the payment of capital debt. The observations hereinafter made with reference to suburban municipalities apply with equal force to the town of Transcona."

Transcona is a town which is called a railway town. It has the Canadian National Railway shops there, and the majority of those employees live in Transcona and have been working on short time, and consequently their ability to pay taxes has been very very seriously reduced: indeed it has gone to the vanishing point in many cases, which explains the difficulties of the town of Transcona.

Next I deal with the Suburban group. I might say that the Suburban group comprises the rural municipalities which adjoin the City of Winnipeg:

"In 1936 the five suburban municipalities had unmatured capital liabilities of \$8,025,431.28 with total sinking funds having a book value of \$333,574.91 and a total net immediate cash deficit, including

matured debentures and sinking fund deficits, of \$2,382,145.87. Total assessments were reduced from \$18,391,486.00 in 1930 to \$15,212,665.00 in 1936.

The net live assessment in 1936 was \$14,044,580.000. Tax levies for 1936 totalled \$1,170,086.92. Applied to the live assessment this levy would give a composite rate of 83.31 mills. The net percentage--

The word "net" has been omitted in the brief:

"The net percentage of uncontrollable expense to total expense was 64.39 per cent. Operating loss in 1936 was \$119,147.12. Between 1930 and 1936 tax levies had been reduced by \$19,124.39, and tax arrears had been increased by \$948,539.07. A comparison of the distribution of the total expense for the years 1931 and 1936 is as follows:

<u>Purpose</u>	1931	1936
Education	\$385,283.99	\$365,946.48
Public Work	81,052.27	74,687.11
Social Services	77,040.41	267,206.76
All other purposes	996,106.78	883,217.37
Total	\$1,539,483.45	\$1,591,057.72

All these suburbs but one are under financial supervision and all have defaulted in the payment of capital debt.

The outstanding features of the financial situation of the suburban municipalities are: (1) the substantial increase in the cost of relief and social services; (2) the heavy capital debt as related to assessment; (3) the high tax levy; (4) the percentage of expenditure which is uncontrollable; (5) the decreasing tax base; (6) the accumulation of tax arrears.

THE CHAIRMAN: Do you say that all the five have

defaulted in the payment of their capital debt and are under supervision? Are you proceeding to seek a readjustment of the financial position of these municipalities?

HON. MR. MAJOR: Yes, my Lord. Within the last six weeks a readjustment was consummated in one of the suburban municipalities.

THE CHAIRMAN: I know that one brief has been filed with us from a particular municipality which shows that the debenture debt has been in excess of the total assessable property in the municipality. Of course, that municipality can never pay its debt. You are satisfied that you have adequate machinery in your present municipal set-up to deal with such a situation?

HON. MR. MAJOR: We have machinery which is being used, but as I mentioned yesterday, and you have expressed the same doubt, I cannot say that it is going to be sufficiently effective to compel creditors to accept any adjustment that may be proposed by the municipality.

THE CHAIRMAN: The point is directly raised in one of the municipal briefs that provision should be made either by Dominion or provincial legislation to deal with such a situation, and I was wondering whether you could throw any light on the problem, and how you think it should be dealt with.

HON. MR. MAJOR: Well, we cannot force a municipality into bankruptcy.

THE CHAIRMAN: There is no provision in the federal bankruptcy law, of course, to deal with municipalities.

HON. MR. MAJOR: No.

THE CHAIRMAN: Is it clear that the power to deal with bankruptcy and insolvency would be broad enough to cover an insolvent municipal unit?

HON. MR. MAJOR: It is not clear with the legislation

as it stands to-day.

THE CHAIRMAN: No, not as it stands to-day. I mean you can say that the Dominion parliament would have the power to enact the necessary legislation?

HON. MR. MAJOR: Yes,

THE CHAIRMAN: The point has been up in the United States where the courts held that Congress could not under its powers with regard to bankruptcy, provide for the liquidation of a municipal unit created by the state. I do not know what our own courts would hold, but it would appear that there should be some place to deal effectively with these municipalities so as to put them on a solvent basis again, and one or two individual debenture holders and creditors should not be able to block a settlement which the court and the majority of the creditors considered a reasonable one.

HON. MR. MAJOR: Of course, if the federal government attempts to put through legislation which would make it possible for municipalities to be put into a bankruptcy court, the old question of the constitutional power will arise because under the constitution, the municipalities are exclusively within provincial jurisdiction.

THE CHAIRMAN: Quite, and that is the reason I raised the point. You are not clear that you have the power?

HON. MR. MAJOR: I do not think we have the power to enable a municipality to become bankrupt.

THE CHAIRMAN: The power must be somewhere either in the Dominion or in the province, for it has been laid down repeatedly that the sum total of legislative powers lies in the one body or the other. I admit that it appears to be a question of very real difficulty, and I did not know whether you could throw any real light upon it.

HON. MR. MAJOR: The municipalities have to provide the public services which the people demand, and when a municipality is declared bankrupt, where is its power to provide such services? I do not know what the effect would be. Once you have a bankrupt municipality, it would have no power to borrow from a bank or from any other source.

THE CHAIRMAN: There can be no doubt, I should think that the provincial government has the power in the case of an insolvent municipality to provide that its affairs shall be administered by an administrator who would be authorized to continue all the municipal services and to levy taxes for that purpose.

HON. MR. MAJOR: We have power now under our act for an administrator to do that thing. Immediately an administrator is appointed the municipal council goes out of existence and remains so until it is restored by order. The council remains, but the supervisor draws up the budget and has final authority what shall or shall not go into the budget.

THE CHAIRMAN: Up to that point your legislation is somewhat similar to ours in Ontario, but ours in Ontario goes further and gives to the Ontario Municipal Board the power to enforce a compulsory compromise of debt if agreed to by a certain percentage of the debenture holders or creditors, and that is the point where the constitutional question arises.

HON. MR. MAJOR: Our legislation says that such an adjustment by the board is binding, but whether we can provide for that approval is where the doubt exists.

THE CHAIRMAN: DO you see any objection from the standpoint of the province, assuming that the Dominion had the power--I do not say it has because it is a difficult question--but do you see any objection to the Dominion

parliament enacting legislation which would extend to municipalities provisions somewhat similar to those of the Companies Creditors Arrangement Act--

HON. MR. MAJORS: Farmers Creditors Arrangement Act?

THE CHAIRMAN: No, Companies Creditors Arrangement Act, under which, as you are aware, a company that finds itself unable to meet its obligations in full may submit to its bondholders and stockholders a scheme for the re-organization of its affairs, and if that scheme is approved by a certain percentage of the holders of these securities, it may be submitted to the court, and if the scheme is just and reasonable the court may approve. All parties have the opportunity to be heard, and then if the court approves, the agreement becomes binding on all.

HON. MR. MAJOR: That may provide an avenue for the municipality to get rid of some of its indebtedness.

THE CHAIRMAN: I only raise the point, and I would be glad if you would give it some thought,

HON. MR. MAJOR: It is worthy of consideration, my Lord.

THE CHAIRMAN: The question of who should legislate upon it is raised in some of the municipal briefs, and we would like all the help we could get on the matter.

HON. MR. MAJOR: Yes, my lord, if I may proceed now with the brief I deal next with Cities:

"It has already been explained that the financial statements of the four cities in Manitoba are compiled by their respective auditors and consequently are not uniform in character. Therefore, there is not available to the government the same comparative detailed statistics as for the other municipalities of the province whose accounts are audited by provincial

municipal auditors. Any statistics or statements submitted herein on behalf of the cities generally or on behalf of the city of Winnipeg are based on information furnished at various times to the Department of Municipal Affairs, and are subject to correction if inaccurate in any particular.

In 1936 the four cities of Manitoba had unmatured capital liabilities amounting to \$79,580,839.99, with total sinking funds having a book value of \$37,526,531.20, and a total net immediate cash deficit of \$11,863,862.93. Their total assessments in 1930 were \$274,691,655 as against \$231,537,634 in 1936. Their total net live assessment in 1936 was \$223,098,485.00. Revised figures show that the total of their tax arrears in 1930 was \$12,458,558.72, as against \$17,640,702.81 in 1936. Their total tax levies in 1930 were \$12,341,577.31, and in 1936, \$10,558,625.66.

Like the other municipalities in Manitoba, the main source of revenue for the cities is the tax on land; business tax and licenses make up the balance. During recent years the tax base of the cities has been materially decreased because of lands reverting to the cities through tax delinquency.

Undoubtedly the greatest single problem for the cities is that of unemployment relief. In 1936 the expenditure of the cities of Manitoba for this purpose was approximately \$1,758,000. Except for some relief works Brandon, Portage, and St. Boniface have been attempting to finance unemployment relief as a current expenditure. St. Boniface and Brandon have been compelled to default, and are under financial supervision. Owing to their financial difficulties, the cities have been unable to properly maintain their public works and serious impairment has resulted."

THE CHAIRMAN: Are you able to say, speaking broadly, whether the municipalities if relieved of their obligations for unemployment relief would be able to carry themselves on the present basis ?

HON. MR. MAJOR: I would not say that. I do not think they could.

THE CHAIRMAN: You do not think they could?

HON. MR. MAJOR: No. I do not think the removal of the entire unemployment relief obligation would permit the cities I have mentioned to operate on a cash basis and provide the services that are required of them.

THE CHAIRMAN: Well, we will no doubt come to your suggestions.

HON. MR. MAJOR: Yes, they will come later on. I deal next particularly with the City of Winnipeg.

City of Winnipeg

The 1936 census gave the city of Winnipeg a population of 215,814 as against a total municipal population for the rest of the province of 432,234.

(Page 275 follows)

In other words, one-third of the people living in organized municipalities in Manitoba live in the city of Winnipeg. It is considered advisable therefore to make some brief special reference to the financial problems of the city of Winnipeg.

The funded and to be funded debt of the city of Winnipeg as at December 31, 1936, was \$71,651,838.28 against which there was a total sinking fund having a book value of \$32,817,949.77. Its immediate cash deficit amounted to \$6,977,357. The total assessment for 1930 was \$245,528,303, and for 1936 \$207,326,865.50. The total tax imposed in 1930 was \$10,771,456.31 and in 1936 \$9,235,524.08. The total tax arrears in 1930 amounted to \$8,242,818.89 and in 1936 to \$12,047,393.47.

THE CHAIRMAN: The question of book values comes in frequently. Are you going to hand to the Commission a memorandum on actual values? It might not be desirable to discuss that in public.

HON. MR. MAJOR: I am sure, Mr. Chairman you can readily get that information from the city of Winnipeg; they will be able to present it in their brief. So far as other rural municipalities and cities are concerned, we will do our best to secure the information you desire. I have just referred to the total tax arrears in 1930 as compared with 1936.

THE CHAIRMAN: That is, the portion of arrears in respect of which they have not taken title to property.

HON. MR. MAJOR: I believe that is the case here.

THE CHAIRMAN: I would assume that that figure with respect to arrears would not include arrears in respect of property to which they had taken title.

HON. MR. MAJOR: My lord, I am rather inclined to think it does include taxes that are unpaid, taxes for

land was sold and title not secured, and lands sold for taxes and title secured.

THE CHAIRMAN: Of course, when the land has been sold and the title secured, for all practical purposes it passes out of the category of arrears; the city has the land as assets.

HON. MR. MAJOR: Yes. Like other municipalities in Manitoba, the main source of revenue of the city of Winnipeg is the tax on real estate. This base of taxation has been materially reduced during recent years because of numerous successful appeals for lowered assessments and because of property acquired by the city through tax sale proceedings. In 1936 it was estimated that over 34 per cent of the area of the city was owned by the city because of tax delinquency. It may be pointed out that it is not altogether unimproved property that has come into the hands of the city, as it has acquired some eighty commercial buildings and over one hundred dwellings. In addition to sale for taxes, business blocks and large private dwellings have been torn down to escape the annual charge for taxation. There seems no doubt that the burden of real estate taxation has hampered the normal development of the city.

Coming now to the burden of unemployment relief, in 1936 Winnipeg's share of such relief was \$1,604,040.21. The city had been unable to provide for relief expenditures in its current budget. In 1936 the funded and borrowed relief debt of the city was \$7,809,170.72. In the 1937 budget there is an item for charges on the funded relief debt of \$401,082.64. The funding of relief expenditures cannot be justified, but it became necessary because there was no other alternative. Any substantial increase in taxation will

only accelerate the operation of the law of diminishing returns. The power of the city to borrow for current purposes has been exhausted, and its bankers have insisted that the current overdraft of the city be substantially reduced. In addition, the city has been unable to adequately maintain its public works, and substantial losses are occurring annually through the deterioration of these assets.

If the city of Winnipeg is to remain financially solvent its expenditures must be reduced through the elimination of the burden of unemployment relief and some reduction in the cost of social services.

I come now to school districts. Some incidental reference has already been made to the financial problems of school districts in considering finances of municipalities. At June 30, 1936, the debenture debt of school districts, including the sums due and unpaid, amounted to \$14,890,077.37 with sinking funds having a book value of \$4,973,026.42. The immediate cash deficit of all school districts was \$3,377,005.95. Statistics for municipalities other than cities show over \$1,000,000 less in expenses for education in 1936 than in 1931. Figures furnished by the Department of Education for all school districts show that receipts from local taxation in 1936 were over \$2,000,000 less than they were in 1931.

School districts, like municipalities, show a revenue peak in 1922-23. In 1923 there were 2,106 districts, 3,936 teachers, a school population of 142,369, and receipts from local taxation of \$8,173,986.21, while in 1936 there were 2,270 districts, 4,426 teachers, a school population of 142,482, and receipts from local taxation of \$5,635,473.27.

THE CHAIRMAN: There is a substantial increase in the

number of school teachers and some increase in the number of school districts. Is there any explanation of that?

HON. MR. MAJOR: The provincial treasurer in his brief will deal with that matter.

For the year ending June 30, 1937, it is estimated there were 868 school teachers in Manitoba in receipt of a salary under \$500 per annum. These represent 20 per cent of the total teaching force of the province and 42 per cent of the rural teaching staff. School inspectors report rapid deterioration in school buildings owing to inability to finance repairs. They also report deficient equipment in a large number of schools. At the present time, mainly for financial reasons, 237 school districts are being administered by official trustees, and these districts have been operated on the average of only 160 days yearly.

In dealing with the municipal financial situation, it was submitted that land, the main source of municipal taxation, could not bear any further burden of taxation. As municipal taxation of schools is the main source of school district revenue, it is evident that an increase of the school tax on land is not a solution.

If reasonable educational services for the children in the marginal and sub-marginal areas of the province are to be provided, if adequate salaries are to be paid teachers in rural Manitoba, if a reasonable standard of school buildings and equipment is to be maintained, there must be substantial increase in the grants-in-aid to education. In addition, if the educational curriculum in rural Manitoba is to be extended and adapted to meet the needs of the rural children, and provide a programme of practical work comparable to that offered to the children in the cities, additional revenues for increased

teaching staff, equipment, and possibly transportation are urgently needed.

Our general summary follows:

The purpose of this brief submitted to the Commission by the Government on behalf of the municipalities and school districts in Manitoba is:

1. To outline the administrative system of local government in the province and the financial relations between the province, municipalities, and school districts.

2. On the basis of the financial statistics, included in or submitted with this brief, to draw the attention of the Commission to certain financial problems that generally affect all municipalities and school districts, and indicate the extent of the financial aid given by the province to local governments.

3. To briefly analyze the particular financial problems of rural municipalities, towns and villages, suburbans, cities, and school districts.

THE CHAIRMAN: We should like to ask certain questions arising out of the briefs filed by the municipalities, and if you would rather have us ask those questions after the municipalities have put in their case we can defer them. Perhaps however you would prefer to have us ask those questions now.

HON. MR. MAJOR: I have not had an opportunity of reading these briefs and I should prefer to have the questions directed to me after the briefs have been presented.

THE CHAIRMAN: Very well. I take it that Mr. Garson will now present his part of the case.

MR. GARSON: I am ready, my lord.

THE CHAIRMAN: This being a very important part of

the case, we want Mr. Garson to take whatever time he considers necessary.

HON. MR. BRACKEN: I am glad to hear you make that suggestion, Mr. Chairman, because we do feel that this is an important part of Manitoba's case, and Mr. Garson will be going into many matters in great detail. Anything said after to-day will be more or less of a general character, so that we should like Mr. Garson at this stage to have as much time as he deems indispensable to the adequate presentation of this part of our case. Incidentally, may I suggest that you do not be too hard on him because he is to-day celebrating his thirty-ninth birthday.

THE CHAIRMAN: We congratulate him and hope that he will look as well when he comes to celebrate his double anniversary.

PART VII
ANALYSIS OF MANITOBA'S TREASURY PROBLEM

HON. STUART GARSON: Before I proceed, Mr. Chairman, may I thank you for your kind reference to myself. With your permission I should like to file Part VII.

EXHIBIT No. 7: Analysis of Manitoba's
Treasury Problem.

HON. MR. GARSON: The title of this part of the case is: "Analysis of Manitoba's Treasury Problem. The intended design of the Dominion -Provincial -financial relationships created by Confederation."

The financial negotiations at the Quebec Conference which laid the basis for the financial arrangements of the British North America Act were conducted under the supervision of the Honourable Alexander T. Galt, Minister of Finance for the United Provinces of Upper and Lower Canada, In a speech delivered by him at Sherbrooke on November 23,

1864, we find a full and clear statement of the ideas which lay behind the financial settlement set out in the Quebec Resolution, and particularly as to the basis on which the subsidies of the provinces were originally determined. We will shortly quote a portion of this address which deals with the financial position of the provinces, in order to stress the point that the subsidies payable to the provinces had a distinct relation to the limited powers which the provinces were expected to exercise, and a distinct relation to the restricted sources of revenue which were to be retained by them under the proposed terms of federal constitution.

In the next two paragraphs I review very briefly the terms of the financial plan, which I do not think it is necessary to read. On pages 2 and 3 and in a few lines at the top of page four I have included a rather full quotation from the speech delivered by the Honourable Mr. Galt. The reason for setting it out so extensively is to make it quite clear that in the light of its whole text the language of the Honourable Mr. Galt to which reference is made later in the brief, legitimately bears the meaning which we have ascribed to it. There are, however, certain parts of the quotation that I would deal with specifically. First of all I would refer the Commission to the first few lines -- several lines in fact -- in which the speaker defines as it were the term "local expenditures". These are his words:

" Now it was necessary to provide by some means for maintaining certain local expenditures of the various provinces. There were the public works to be kept in order, the educational institutions to be maintained, the systems of civil law to be

administered, and there were a variety of other claims to be attended to, which would naturally suggest themselves at once to any one who reflected on the subject. For this purpose, it was found necessary to assign them certain local revenues, of which the territorial revenues formed the bulk."

The next selection appears a little lower down on the page and reads as follows, dealing with the nature of the local machinery that was to be set up:

" Now one objection to Confederation was made on the ground of expense, and in order to meet this, every effort had been made to reduce the cost of the local governments, so that the local machinery should be as little costly as possible, for it would not do to affront the intelligence of the people, and tell them we had devised an expensive kind of machinery to do a very insignificant amount of work."

In the next few sentences the true inwardness of that last remark is made apparent:

" The gentlemen from the Lower Provinces had been asked what reductions they could make in the government of the several colonies, and the figures he was about to give would be most satisfactory as showing the disposition of those gentlemen, who had reduced their requirements to the lowest sum. In her estimate of outlay for 1864 for objects of local character the province of Nova Scotia had provided for an expenditure of no less than \$667,000 but had undertaken to perform the same service in future under a Confederation for \$371,000, or a reduction of 40 per cent."

In other words, Mr. Chairman and Members of the Commission, not only were the functions of the provincial governments, as envisaged here, to be confined to objects of a local character such as those specified in the quotation I have given, but expenditure upon those objects was intended to be reduced by as much, in the case of Nova Scotia, as forty per cent.

THE CHAIRMAN: You do not hold out to us any such hope or prospect.

HON. MR. GARSON: Certainly not, Mr. Chairman. Mr. Galt goes on to review the proposals to reduce the expenditures of other provinces in the same manner. The next section I would read begins with the second sentence on page 3, which deals with the basis of the subsidy. It reads as follows:

" The outlay of all the provinces being however greater than their local revenues it became necessary to make provision out of the general fund for the purpose of enabling their local legislatures to carry on the machinery of government. It was proposed to take away from them every source of revenue they possessed except minor local revenues, and then to give them from the public chest a sufficient subsidy to enable the machinery to work. The estimate was formed on the wants of Nova Scotia. It was at first proposed to form it on the wants of New Brunswick, but these were found greater than those of the former, which had consequently been taken as the basis. The estimate was that 80 cents a head on the population of Nova Scotia would be sufficient to enable her to work her local system. She would want \$264,000. In the case of Upper

Canada, 80 cents a head was considerably more than she wanted at the present day, and in the case of Lower Canada was at least adequate with the present local funds that would become available to her. But it was felt that in giving a subsidy from the public chest it was impossible to draw a distinction between one part of the country and another."

Going directly on from that selection, the next sentence opens the portion dealing with the Honourable Mr. Galt's conception of direct taxation as a check upon extravagance. I quote:

" But it was not intended to hold out any inducement to future extravagance to local governments, but it was hoped that by the operation of natural causes such a check would be put upon expenditures as would bring them down to the lowest point, or at least prevent them from becoming lavish. Therefore the subsidy proposed to be given to local legislatures was fixed, not at an increasing rate according to population, but at the rate which existed at the census of 1861. By this means, as the population increased, the subsidy would not increase with it. Upper and Lower Canada would thus get within a fraction of two million dollars, and when their population increased to five million instead of two and a half, would get no more. If they increased their expenses in proportion to the growth of population they would be obliged to resort to direct taxation; and he thought they might trust the people themselves to keep a sharp watch over the local governments lest they should

resort to direct taxation. He thought no surer check could be put upon them than thus fixing the grants they were respectively to receive."

Following directly after that last mentioned quotation, the Honourable Mr. Galt set out certain figures. I will not quote them but I would point out to the Members of the Commission the effect of those figures. It was this. The pre-Confederation composite balanced sheet of Upper and Lower Canada, Nova Scotia and New Brunswick, showed a surplus of revenues over expenditures of \$1,722,409, and after the arrangement which is set out in these figures -- if carried into effect -- Confederation would have, of that \$1,722,000, \$1,089,000, and there would be left as a surplus to the provinces \$632,680. In other words, it was proposed that Confederation should appropriate about eleven-seventeenths of the surplus which the provinces had previously had, and I suppose the idea was that this would be made possible by the device which has been previously mentioned, of compelling the provinces to pay up to 40 per cent less for even objects of a local character which were left with them. Going on now to page 4 --

THE CHAIRMAN: Is there any material given us, between the speech of the Honourable Mr. Galt in Sherbrooke and his speech on the Confederation resolutions in the Canadian Parliament?

HON. MR. GARSON: No, Mr. Chairman, there is not. I read both those speeches and, rightly or wrongly, came to the conclusion that there was not in the Confederation speech as comprehensive and concise a statement of the whole plan as this one. Parts of it are of course verbatim, but one would have to make selections from the

different ones and put them together, and I thought that this was a fair sample. Sir A.T.Galt evidently envisaged the local government doing what he referred to as an insignificant amount of work by an inexpensive kind of machinery supported by dominion subsidies, which would not increase according to growth of population but would remain at the rate which existed at the census of 1861. There is a footnote to this remark, referring to the legislation relating to subsidies. Actually, the arrangement made afterwards was slightly different in that Nova Scotia and New Brunswick did increase according to population until their population reached a certain point and then stopped.

The Fathers of Confederation had in mind certain specific, well-known local expenditures for the provinces-- "public works to be kept in order, the educational institutions to be maintained, the systems of civil law to be administered" and "a variety of other claims to be attended to, which would naturally suggest themselves at once to anyone who would reflect upon the subject." The only expenditures which it was at that time expected that the provinces would be called upon to make were for matters which were then well known and within the cognizance of anyone "who reflected upon the subject". No one at the time of Confederation contemplated that there would be thrown upon the provinces and municipalities vast expenditures, unforeseen and novel. Consequently no provision was made in the financial plan for the large expenditures which would be needed therefor. While the provinces were given the power of direct taxation, it was intended that they would be "obliged" to resort to that power "if they increased their expenses in proportion to the growth in population." The whole set-up for local government was

predicated upon the small amount of local administrative work that was to be done by means of simple and inexpensive machinery supported by territorial revenues and a fixed subsidy from the dominion government. Apparently it was thought that these two sources of revenue would be adequate if the duties with which the local government was charged were discharged with simplicity and economy; and that these two revenues would require to be supplemented by direct taxation only under unusual circumstances. Moreover, the idea was that the people would keep a "sharp watch" over the local governments lest they should resort to direct taxation

I come now to the heading "Financial plan of Confederation unsound from beginning." The view is held by some eminent authorities that this financial plan of Confederation was unsound from the very beginning. The Honourable Norman McLeod Rogers, writing under the title of "A crisis in Federal Finance," in the Canadian Forum in November, 1934, stated: --

THE CHAIRMAN: I suppose the rule does not obtain before this Commission which prevails in the courts, that no living author should be quoted as an authority. I do not suppose we are applying that rule here.

HON. MR. GARSON: I would suggest, Mr. Chairman, that the gentleman in question here is an authority in fact; whether he is in law or not I leave to the Commission to decide.

THE CHAIRMAN: What you propose to quote in that connection you intend, I take it, to adopt as part of your argument.

HON. MR. GARSON: Yes, my lord; and it is framed in language much more suitable than we can ourselves devise.

This is what Mr. Rogers wrote in the Canadian Forum:

" "The fundamental weaknesses of our system of federal and public finance have existed since the creation of the Dominion.....The failure to develop a satisfactory scheme of Federal public finance in Canada is due in the main to the erroneous assumption which supported the original settlement in 1867 These assumptions were carried over, with minor qualifications, into the revised settlement of 1907."

Mr. Rogers goes on to enumerate these erroneous assumptions as follows:

" That increased expenditures by the provinces would arise from expanding population rather than from the acceptance of new governmental obligations.

That any new obligations which the provinces might accept could be supported adequately by expanding territorial revenues or by direct taxation.

That the ends of Federal justice would be served by a uniform scale of per capita payments to all of the provinces of the Dominion.

That the provinces must be subsidized on the basis of equal per capital payments is perhaps the most flagrant error in the system of federal public finance."

In the Canadian Forum of December, 1934, "One Path of Reform," Mr. Rogers again writes:

" It is not too much to say that the error of these assumptions and principles under the existing scheme of federal public finance could be exposed conclusively by any impartial and scientific investigation."

There is a slight suggestion there for the benefit of the present Commission:

" A proper survey of Dominion-Provincial financial arrangements must now take account of the incidence of tariff policy as an integral part of the tax system of the Dominion. It must be recognized in other words, that the unequal effects of the tariff upon the wealth and income of the various provinces of the Dominion should be neutralized by direct subsidies or developmental expenditures, or in the alternative that differences in a taxable capacity of the provinces should be recognized as an essential feature in any scheme for the readjustment of the provincial subsidies."

The correctness of Mr. Rogers' view that there were fundamental weaknesses in the system of federal and public finances established by the British North America Act was indicated by the fact that it became necessary to give a series of special grants, which began, in the case of Nova Scotia, in 1869 -- two years after Confederation. These special grants are still continuing -- the last instance being the interim subsidy increases granted to assist certain provinces, including Manitoba, pending the hearing of this present Commission.

When the provincial subsidies were increased in 1907, Sir Wilfrid Laurier said in the House of Commons:

" If the principle be admitted of a contribution being made from the Dominion Treasury to the provinces the provision made by the British North America Act for contributions to the provinces has proved to be absolutely insufficient and inadequate. The experience of forty years has

has brought this fact again and again to the attention of parliament and the people of Canada.....not once, not twice, nor thrice, but periodically and systematically parliament has been asked at almost regular intervals to vote in favour of now one province and now another province appropriations far in excess of anything that had been stipulated in the British North America ActAll these have been made by parliament without any guiding principle, but simply as the expediency of the moment suggested, or rather as the financial difficulties of one province or the other were more or less urgent.

The accuracy of Mr. Rogers' statement that the unequal effect of the tariff on the wealth and income of the various provinces of the dominion should be recognized and neutralized is indicated by the fact that every province in Canada, with the exception of the two industrial provinces of Ontario and Quebec, has had to seek and obtain as a matter of need this special grant to which we have alluded. Ontario and Quebec, because of national trade policies which fitted in with their natural advantages, have been sufficiently prosperous to carry on without federal assistance by way of special grants.

THE CHAIRMAN: Is not that a pretty large assumption, that it is solely due to tariff legislation?

HON. MR. GARSON: Well, it probably is a fairly wide statement but that seems to be the view of Mr. Rogers amongst others.

THE CHAIRMAN; It seems pretty wide. There are other

factors to be taken into consideration. Take the position of Ontario and Quebec in recent years -- the development of power, the location of industries that require cheap power, the development of mineral resources and so on: these undoubtedly are factors that contributed to the prosperity of these two provinces in a way quite as important in many respects as the tariff.

HON. MR. GARSON: I agree, Mr. Chairman; but the point I am making here is this, that national trade policies fitted in with their natural advantages. I would include the circumstances to which your Lordship refers -- power and location convenient to transportation systems -- as natural advantages. For is it not due to these natural advantages that these two provinces have been able to set up an industrial system which has profited in a measure by the tariff?

THE CHAIRMAN: Undoubtedly.

COMMISSIONER ANGUS: Is it your contention that there are two quite distinct bases of claims -- one, that national policies have been injurious to some sections and therefore there should be some compensation therefor, and the other, that certain peculiar natural advantages have operated and that therefore poorer areas should have certain national services maintained in consequence?

HON. MR. GARSON: I would not put it on that basis. I would say that the natural advantages enabled the industrial system to be set up and that the tariff has made that system more fruitful. It has enhanced the operations of that industrial system at the expense of other parts of Canada, and I contend that if one were seeking economic justice it would be necessary to restore the balance between the two areas in question. That, however, is not within the scope of my brief. My own

brief does not deal with the economic aspect of the problem at all, but rather with the financial. What we are concerned with in Part VII is the question as to what financial plan will work in Canada regardless of what the economic circumstances may be; and if you will permit me, that is the topic I should like to adhere to.

I come now to the heading "Working out in Manitoba of financial plan of Confederation." This will be found on page 6 of the brief:

It is interesting to trace the working out of the plan of Confederation in the case of Manitoba. For this purpose we have had Manitoba's revenue and expenditures broken down into the classifications used by the Bank of Canada in its comparative statement of provincial public finance, supplied to the National Finance Committee at Ottawa in December, 1936. In this connection I think I should direct the attention of the Commission to tables one and two. Table one shows in the left hand column, under the head of Expenditure, Public Debt Charges, and General Expenses of Government, certain figures to which I would call attention. These are the first items enumerated, the others being, in their order, Education, Public Welfare, Public Works, including maintenance of all buildings and Public Domain, which in this province includes two departments - Agriculture and Natural Resources. This is broken down first of all for the year 1875, which is the first year for which public accounts for this province are available. Following that we have the year 1881, followed again at regular biennial periods until we come to 1931, and then 1936.

In the first column we show the actual amount in dollars spent under each of these items. In each case,

under each yearly heading, is shown the percentage which the expenditure upon that item forms of the total expenditure. For example, in 1875 the general expenses of government formed 68.64 of the total expenditures of all kinds. Then in the same table just below are shown the population figures of Manitoba in these various years, then the per capita costs under each of these items, for the total expenses of government.

In table 2 I have followed the breakdown of the Bank of Canada. That is what I have said, and we have done so, but it is not set up here in print quite as clearly as it might be. If the Commissioners will observe, the first item of table 2 is the Dominion governments subsidies which corresponds to the Bank of Canada's first item.

Then follow what are referred to as taxation duties. That I think, is a typographical error; it should be just taxation. Under that heading are set forth various items -- succession duties, corporation taxes, railway taxes, income tax on persons, special tax on wages and other income, gasoline tax, auto licences, amusement tax, old age pension levy, and all other levies. This series corresponds to the item of taxation in the Bank of Canada breakdown.

Next we give the non-taxation revenues. The second last item from the bottom of the series under this head is "fines and other fees, etc." This is the third item of the Bank of Canada breakdown, and at this point I should make it clear that in our figures all through this brief we have treated taxation as including motor vehicle licenses, whereas in the Bank of Canada figures, upon which the taxation figures of

Part V of our brief are based, that is included under the heading of licenses and other fees and excluded from taxation.

There will therefore be that difference between the two sets of figures, In our view, motor vehicle licences are really a tax on motor vehicles and we have so treated it in our account and in these statements.

The next item to which I would call attention is "Mines and natural resources"; that is the third item from the bottom. The next is "Government Liquor Control Commission. In these two tables the comparison I am making is between the items under the headings of ordinary revenues on page 6 -- that is, the items of the Bank of Canada breakdown -- on the one hand, and the items of this table 2, which is just opposite page 6, on the other. In these two tables can be traced with moderate accuracy the financial history of Manitoba. For instance, if we look at Public Debt Charges, we find that in 1875 they were nil. In 1881 they were nil and in 1891 they amounted to \$80,802.05 which, in the next column, is shown to have been 12.16 per cent of the total expenditure on all accounts; and below that we find a per capita cost given of .53 cents.

In 1901 the public debt charges amounted to \$245,187.21 or a percentage of 24.81, with a per capita charge of .96. In 1911 the charges amounted to \$560,515.56, the percentage being 18.66 and the per capita 1.22. Finally, in 1936, we find that the charges had increased to \$6,821,253.13, the percentage being 47.24 and the per capita 9.60.

THE CHAIRMAN: The figures show a large increase in public debt charges as between 1901 and 1921.

HON. MR. GARSON: Yes; the figures are broken down. A similar observation might be made with respect to table two, dealing with dominion government subsidies. In 1875 the amount was \$65,412.58 representing a percentage of 88.08 of the total government revenues, and in 1881 it was \$99,178.78, or 56.54 per cent. In 1891 the amount was \$435,595.74, or a percentage of 73.77. In 1901 the amount was \$483,687.06, the percentage being 47.95. In 1911 the amount was \$838,247.06, the percentage being 24.27. In 1921 the amount was \$1,470,991.42, or 15.01 per cent. In 1931 it was \$1,559,755.76 or 10.61 per cent, and in 1936 the amount was \$1,786,922.67 or 12.27 per cent.

There is a further word of explanation with regard to these tables, and it is this. Although as stated, the classification of items used in table one is that used by the Bank of Canada, it is necessary to point out certain facts with reference to the items of Public Welfare, Public Works and Debt Charges. It is necessary to make an explanation with respect to these items. This explanation will be found on page seven. I should like to quote the statement:

" The items Public Welfare and Education do not include the cost of the debt charges upon that portion of the public debt incurred in order to erect public buildings for educational and social service purposes, nor do they include the cost of maintenance of public buildings for these purposes. This cost of maintenance is included under the heading of Public Works maintenance. It is not large enough to warrant a separate table

here showing the amount of it.

Table 1 indicates that the total per capita expenditure of \$3.87 in 1901 was only 16 cents more than the \$3.71 figure of 1881. This per capita expenditure increased from \$3.87 in 1901 to \$6.51 in 1911, about 75 per cent. But of the whole period between 1881 and 1936 the decade which showed the greatest percentage of increase in total per capita expenditure was that between 1911 and 1921, the decade in which the great war occurred.

Table 3 contains a classified list of capital assets used for educational and social service purposes together with an estimate of public debt charges at 4 per cent upon the capital value thereof for the fiscal years ended November, 1915; November, 1921; April, 1931; and April, 1936. The fiscal year ended November, 1915, is the first year in which such detailed figures are shown in the public accounts."

Table 3 will be found on page 8. It includes direct Soldiers' Taxation Relief and an item for patriotic purposes. For education in 1936 the total amount was almost \$6,000,000, and for the same year, for social service the total is very nearly \$25,000,000, in other words nearly 25 per cent of the gross debt.

THE CHAIRMAN: Do these items that have been put in represent the actual amount expended, or are they merely an estimate?

HON. MR. GARSON: I would not be too certain about that, Mr. Chairman. My instructions were to take them off to show what had actually been spent. They have been abstracted and set up for the purpose of showing

expenditures, but I can verify that.

I come now to the heading "Financial Plan of Confederation still working reasonably well in 1911."

An examination of the revenue side of the account will show that, subject to the adjustments which have had to be made in the dominion government subsidy, Sir A.T.Galt's plan was still working in Manitoba as late as 1911, in the sense that it had not been necessary to levy taxes of an unpopular nature in order to meet expenditures. In 1911 there were corporation taxes, railway taxes and succession duty taxes, none of which were of an onerous character; there was also an auto license tax which produced the modest sum of \$14,500.00

In 1911, when Manitoba was still relatively free from direct taxation, the dominion government subsidy, expressed as a percentage of Manitoba's total current expenditures, was 24.27 per cent.

I see, Mr. Chairman, that this statement appears in the brief. It is a mis-print; that should be revenue.

THE CHAIRMAN: That is revenue.

HON. MR. GARSON: Yes, that is right.

It is noteworthy that in 1911 the per capita cost for the general expenses of government at \$1.34 and the per capita cost of the maintenance of public works at \$1.37 were less than the cost of the same items in 1881 at \$1.60 and \$1.57 respectively. Per capita expenditure on public domain had increased over that of 1881, but was less than 1891 and 1901. Per capita public welfare costs from 1881 had approximately doubled in each decade to reach 85 cents in 1911. The per capita cost of education had increased approximately three and one-half times between 1881 and 1911.

These comparisons of the growth of expenditure are particularly interesting because we suggest that the figures for 1911 in table 1 are the last figures representing the cost of discharging the functions of provincial government according to Sir A.T.Galt's financial plan created by Confederation. This point is noteworthy because, in spite of the fact that the dominion subsidy had declined to 24.27 per cent of the total current revenues, it was still possible, to use the words of Sir A.T.Galt, "that by the operation of natural causes such a check would be put upon expenditures as would bring them to the lowest point or at least prevent them from becoming lavish"; and that "if they (provincial governments) increase their expenses in proportion to the growth in population they would be obliged to resort to direct taxation"; and "that they might trust the people themselves to keep a sharp watch over the local government, lest they (provincial governments) should resort to direct taxation;" and that "no surer check could be put upon them than thus fixing the grants that they were to receive respectively." Up to 1911 the pressure of public demands for increased services had not been such as to necessitate the imposition of direct taxation of an unpopular nature upon any substantial scale. Of total revenues only 12.10 per cent were from direct taxation as compared to 63.63 per cent from non-tax revenues and 24.27 per cent from dominion government subsidies.

THE CHAIRMAN: Was there not about that time, or shortly before, a very large expenditure for public buildings which resulted in a considerable increase in the debt charge?

HON. MR. GARSON: It was shortly after that. It was in the decade between 1911 and 1921. One of the difficulties in taking ten-year periods is that you do not always happen upon the expenditure.

Of total revenues in 1911 only 12 per cent were from direct taxation as compared to 63.63 per cent in respect of non-taxation revenues and 24.27 per cent from dominion government subsidies.

In the decade between 1911 and 1921 a great change took place both in respect of expenditures and since once taxation is resorted to the amount of the taxes is but a reflection of the expenditures which they are levied to defray, in the rate and character of new taxation. In 1921, while all the headings of per capita expenditure rose substantially, by far the greatest increases were in respect of public debt charges, which rose from \$1.22 per capita in 1911 to \$5.13 per capita in 1921; education, which rose from \$1.39 per capita in 1911 to \$4.03 per capita in 1921; and public welfare costs, which rose from 85 cents per capita in 1911 to \$2.41 per capita in 1921. It will be seen that these three items mentioned increased by 420 per cent, 290 per cent and 284 per cent, respectively, in that one decade.

An examination of the items under which the increases took place discloses the real cause of such increases. Under Public Debt Charges these were: government-owned grain elevators, government-owned Manitoba Farm Loans Association, the government-financed Rural Credits Scheme the publicly financed Housing Scheme, a Good Roads system financed by the grants of borrowed money and by the guarantees of the government, and the new Parliament Buildings. That is the item to which you had reference, Mr. Chairman?

THE CHAIRMAN: Yes. How much did they cost?

HON. MR. GARSON: I shall come to that. The figures are set out on page 11, \$9,347,255.15. With the exception of the public buildings, these items are all expressions of new public demands for additional governmental responsibilities. Even the demand for good roads, which was met by the Good Roads system, was so different in degree from the type of demand previously made by the public for roads that it also was different in kind from any such demand theretofore made upon the Manitoba government.

FAILURE OF FINANCIAL PLAN OF CONFEDERATION
TO CONTINUE FUNCTIONING IN ACCORDANCE WITH
INTENTIONS OF FATHERS OF CONFEDERATION.

Sir A.T. Galt's plan, which had begun to show signs of strain in the decade between 1901 and 1911, had now in the decade between 1911 and 1921, suffered a complete collapse. No longer could it be said that the services discharged by the Manitoba government, and for that matter by all the other provincial governments in Canada at that time, were "an insignificant amount of work" to be done by an inexpensive kind of machinery and maintained by federal subsidy and local non-tax revenues, supplemented only in cases of unusual need, by direct taxation. The

Dominion subsidy in 1921 as a percentage of the total current revenues of the province had sunk to 15.01 per cent.

FUNCTIONS OF THE CONSTITUTION AS AN INSTRUMENT OF GOVERNMENT.

Why was the financial plan of Confederation breaking down? The answer cannot be better stated than in an article by the Honourable Mr. Rogers:

"A Constitution is an instrument through which the community seeks to realize certain declared purposes. The institutions it creates and the powers given to those institutions are assimilated to the character of the purposes it is designed to serve. The British North America Act, 1867, was an expression of the political philosophy of laissez faire. According to the current opinion of that day the less government interfered with private business the better it was for the welfare of the community. The scope of government was narrowed by this philosophy.

The distribution of powers and the division of taxing powers between Federal and provincial agencies show the influence of the prevailing doctrine. The control of social services and the regulation of wages and hours of labour were not attributed to the Federal authority for the simple reason that such subjects were thought to be beyond the domain of government and to fall within the range of private or collective enterprise and freedom of contract. The Fathers of Confederation are not to be blamed for their failure to assign these subjects specifically to the national authority. These men were neither prophets nor

soothsayers but practical statesmen whose political experience had been gained in the narrow field of colonial government. Their major fault lay in their evident assumption that the contracted boundaries of government which had been defined within the philosophy of *laissez faire* were fixed and unalterable. As a consequence of this fallacy they failed to provide within the Constitution the means of its own amendment in future years.

The growing demand for constitution revision in Canada has proceeded *pari passu* with the awakening of a new social philosophy. That new social philosophy is in large part the product of industrialism. It originates in dissatisfaction with the social instability inherent in the modern organization of industry and commerce. Its objective is a larger measure of security for wage-earners to be obtained by the intervention of the State in the economic life of the community. In the pre-war period this new social philosophy had made little progress in Canada. The conditions favorable to its growth did not exist in this country. In our outlook and organization we were still an agrarian community. The industrial sector was relatively unimportant in our economic life until the turn of the century."

It is very significant in the case of Manitoba, the turn of the century and the growth of the industrial sector can be traced - there is a bit of a lag, it is true - in the fact that between 1911 and 1921 the plan had commenced finally to break down.

"Even in the first decade of the new century the true frontiers of expansion were on the western prairies. We were still in essentials an agrarian country although the industrial sector was expanding rapidly under the stimulus of western settlement and improved transportation. Under such conditions the defects of the Federal Constitution were not readily apparent. A rigid constitution system will not necessarily produce friction while the economic life of the community is permitted to function for the most part in a regime of private enterprises and freedom of contract. The real difficulty arises when the economic system fails to function adequately under private enterprise and the need is recognized for a larger degree of social control. Then it becomes apparent that rigidities in the constitutional system must be relaxed in order to permit the degree of centralized control necessary to guide the economic system towards predetermined social objectives."

THE CHAIRMAN: If I understood Mr. Major's argument rightly, if a proper interpretation had been given to the introductory clause to Article 31, this situation would not have come about.

HON. MR. GARSON: Yes.

CHAIRMAN: If that view is correct the Fathers of Confederation were not so far astray as you suggest.

HON. MR. GARSON: I think this all depends, Mr. Chairman, upon whether the residuary power of the Dominion - or shall I put it this way: what function they assigned to the residuary power of the Dominion. My own view, which I give with all humility, is this: they could only see, as all of us only see, conditions as they existed at the

time that we legislate. And seeing only that they assigned certain functions to the Dominion, and certain functions to the provinces; and then they provided. They know there were things that would be unforeseen. Those unforeseen things they left to the Dominion. But, unfortunately, due to judicial interpretation, they have been switched to the provinces.

THE CHAIRMAN: If the principle laid down in *Russell v. the Queen* and reaffirmed in the Lord Watson judgment of 1906 in the liquor case had been followed probably most of the cases Mr. Major cited would have been decided differently.

HON. MR. GARSON: Yes. The working out of Manitoba's financial history corroborates in the main Mr. Rogers' view here stated. An examination of the break-down of the items under which substantial increases occurred in the decade 1911 to 1921 will disclose this.

ANALYSIS OF INCREASE IN PUBLIC DEBT, 1911-1921

In table 4 is shown the bonded debt of the province outstanding as at December 31, 1911, November 30, 1921, and April 30, 1936, being the respective fiscal year-ends of the years referred to.

Table 4 contains a reasonably complete - I think quite complete - statement of our bonded debt. In the first column is given the item. Public expenditure and public buildings and grounds. I shall later have information referring specifically to these items. The next column is headed "Public Utilities", then Drainage Districts, Advances and Loans re Agriculture, Canadian Northern Railway (Minnesota Section), Housing Scheme, Roads, Unemployment Relief, Government Liquor Control Commission and Sundries. Under each one of these main headings, where there is information for it, there is a breakdown of further items. Then, these tables are carried out to the right and the figures are shown for 1911, 1921 and 1936.

Where I make reference later on to the growth in public debt, the reference is to these figures here and can be checked by consulting this table. The first item is public expenditures. I think some reference was made to the agricultural college and this is an attempt to explain that. Public expenditures appear as \$2,996,599.99 in 1911, \$5,449,497.52 in 1921 and \$5,082,468.17 in 1936. This is an item, the first borrowing for which was made in 1888, and the whole of which was incurred before 1921. The records we have do not permit of any further break-down. Public accounts issued during the period appear to indicate that most of the monies were used for the Agricultural College, mental hospitals and other public buildings. The next item is Public Buildings and Grounds. In reply to the Chairman's question I might say the new Parliament and other public buildings and grounds cost \$9,347,255.15. There was an increase in that heading between 1911 and 1921. The other items are: mental institutions, educational buildings, sanatoria and hospitals, judicial buildings, gaols, etc. The total is \$15,788,255.15.

THE CHAIRMAN: You are of the opinion that certain federal policies operate to the disadvantage of the province of Manitoba and for the benefit of the central provinces, with the result that you find yourself in a certain financial position. The commission is asked to take that into account; but the Commission also takes into account the fact that you spent \$9 million on your Parliament Buildings; whereas the province of Ontario spent \$750,000 on its Parliament Buildings, with the exception of the new wing which it had to put up in recent years to accommodate its expansion.

HONOURABLE MR. GARSON: My Lord, I think the Commission should take all relevant facts into account and I think that

is a relevant fact.

There was an increase of \$7,836,643.37 in debt for public utilities which in the period under discussion was self supporting. The debt with regard to drainage districts increased by \$1,402,282.00.

We now come to the heading "New Government Business Enterprises". The next division of debt would show a very substantial increase is made up of a number of amounts borrowed for government business enterprises. A list of these enterprises is given and they total to slightly over \$8,000,000. It is noteworthy, as Table 4 indicates, that the total bonded debt of the province attributable to these and Co-operative Wheat Producers Limited advances, had grown, as at April 30, 1936, to no less than \$16,490,582.96.

These enterprises, moreover, have involved the province in principal losses estimated at this date to be \$8,557,173. or about 6.68 per cent of the total bonded debt of the province.

THE CHAIRMAN: Is the list that you refer to as \$8,507,000 different from the enumerated items of \$8,001,578.17?

HON. MR. GARSON: Well, the \$8,001,000 is the amount of the increase between 1911 and the loan as it stood at 1921, and the list is the list in respect of the sixteen millions.

THE CHAIRMAN: Your total list of these enterprises?

HON. MR. GARSON: Yes, the data. We worked out the percentage, because I think it is commonly supposed it is a very much larger amount of the total debt.

HOUSING SCHEME

The next item of increase in the bonded debt of the province between 1911 and 1921 represents a demand upon

the government for social services which, up to that time, had no precedent in Manitoba's history. This is the housing scheme which involved an increase in capital debt of \$3,575,000.00. The total outstanding debt due by the province at date under this head is \$2,212,188.00. This money was loaned to municipalities and is recoverable from them, but at date there is seriously in arrears as to principal and/or interest a total of \$1,982,599.00.

THE CHAIRMAN: I suppose there will be substantial losses?

HON. MR. GARRISON: I should imagine that there would be nothing like this amount, but they will be enough to justify the term "Substantial".

GOOD ROADS SYSTEM

Then there appears in 1921 an item of capital expenditure on roads of \$3,923,333.33, which, as at April 30, 1936, had grown to the sum of \$18,077,331.46. The building of roads is, of course, a proper function of the provincial government and was so from the time of Confederation; but it is submitted that the difference in degree between the building and maintenance of roads for the period from 1870 to 1901 - one function only amongst the "insignificant amount of work" left with the inexpensive local governments - and the building of extensive gravelled highways for motorized traffic with millions of borrowed money is so pronounced as to constitute a difference in kind. In fairness, it must be admitted, however, that from a financial standpoint, provincial taxation of the motor vehicles and their fuel, which necessitated the capital expenditure upon this new type of road, although direct, has in the main been acquiesced in by the motorists.

SUNDRIES

The break-down of this item is largely self-explanatory.

It is a debt created for the most part in connection with discount and exchange on debenture issues, funding deficits, and expenditures for soldiers' taxation relief. Details of this item are shown in table 4.

ANALYSIS OF PUBLIC WELFARE INCREASES, 1911-1921

Table 5 gives the details, and is a classified statement of number of patients and patient days for the years 1911, 1921, 1931 and 1936. Table 6 on page 14 contains a statement of expenditure for public welfare and so on. A comparison of these two tables will indicate that the costs of caring for mental diseases and public welfare institutions increased more rapidly than the patient population, thereby indicating an increased cost per patient day, which is the reason for the increase.

THE CHAIRMAN: To what do you attribute the increased cost between 1911 and 1921, increase in prices?

HON. MR. GARSON: Yes. The cost of living had gone up; prices had gone up; prosperity was up; more money was spent. It was a period of, shall I say, inflation generally.

We now come to "Hospitalization". Unfortunately the statistics with regard to the number of patients treated and the number of patient days for hospitalization, which were, during the period 1915 to 1920, kept by another department, are not available, but an increase in cost is indicated from \$77,989.90 to \$182,773.89, or an increase of approximately 250 per cent.

We now come to "Child and Family Welfare". This item, which did not appear at all in 1911, first appeared in the public accounts of 1917, following the passing of the Mothers' Allowance Act in 1915. There was a rapid increase in this item from \$55,732.00 in 1917 to \$469,201.82 in 1921, from which sum it increased to \$579,204.80 in 1931 and then declined to \$516,659.40 in 1936. The high point

of this service was in the year 1929 when the sum of \$643,248.89 was disbursed.

In the aggregate, Public Welfare costs increased from \$390,259.58 in 1911 to nearly four times that much, or \$1,471,691.99 in 1921. In the main this increase is due to the new social service of widows' and children's pensions inaugurated under the Mothers' Allowance Act of 1916, and to the increased cost per patient day of taking care of a not abnormal increase in the number of aged and insane persons.

THE CHAIRMAN: Was Manitoba the pioneer among the provinces in introducing mothers' allowances and the child and family welfare Acts?

HON. MR. GARSON: I am not certain, My Lord; but if it was not the pioneer it, at any rate, was among the first to introduce these acts.

THE CHAIRMAN: I assume at that time the revenues would justify the province's embarking on the expenditure.

HON MR. GARSON: I think that is a fair assumption.

THE CHAIRMAN: There was no Dominion contribution for anything of that kind at that time. One province may undertake it and another may not. I do not know what the situation is at the present time but I presume most of the other provinces have followed along the same line.

HON. MR. GARSON: Would it not be right to say, Mr. Chairman, by reason of the fact, as you have pointed out, that Manitoba was at any rate amongst the first to introduce it, that the assumption was bound to be based upon inexperience as to what it would cost, how the cost would increase, and how it could be taken care of. We are probably a great deal wiser today in respect of these matters than people inaugurating a new system. But in

spite of the fact that it was introduced and showed these effects in this province, it has been introduced in nearly all the provinces, although they had the benefit of knowing what it had cost us.

COMMISSIONER DAFOE: I do not believe there is any doubt that Manitoba was the first province in Canada to introduce Mothers' Allowances.

HON. MR. GARSON: I did not like to make the positive statement. I believe that is the fact.

HON. MR. BRACKEN: I believe it is correct to say there was no appreciation of the fact that it would cost as much as it has cost.

HON. MR. GARSON: I believe during the discussion of part 6 the Chairman raised the question as to the explanation of the increased cost of education. The table relative to that for the period 1911 to 1921 is Table No. 7, set out on page 15. By reason of the fact that in this province only about 15 per cent of the cost of education is supplied by the provincial government and the other 85 per cent by the municipalities, the statistics relating to government grants and so on are not as significant as they may be with relation to the adequacy of the provision for education. Therefore, we think it necessary to point out that in regard to table 7 it is important to know the following facts: between 1911 and 1921 rural Manitoba (i.e. all Manitoba, excepting the city of Winnipeg), - the other cities have their educational problems, and are very much in the same position as the rural part - increased educational expenditures from \$2,677,327 to \$9,323,619, an increase of \$6,645,675 or 348 per cent. A portion of this increase was due to the increase in provincial grants but a much greater portion was provided from local taxation, which in the same period for the whole province increased from \$1,847,379 to

\$6,922,864.

Some part of the added expenditure was used for an increasing and expanding building programme but the major portion was represented in the improved type of education provided. There was an improvement in attendance, an increase of almost 50 per cent in school population; improved standards of teaching efficiency and an increasing number of teachers responding to the increase in school population. The average teachers' salary for this period rose from \$456,000 in 1911 to \$1,019.00 in 1921, based on all teachers' salaries, elementary and high school, in rural Manitoba, which, as I pointed out, includes the cities of Brandon, Portage la Prairie and St. Boniface.

THE CHAIRMAN: How would that compare with the average salary today?

HON. MR. GARSON: I have that at a later point.

THE CHAIRMAN: Thank you.

HON. MR. GARSON: It may, however, be reasonably assumed that during this period of relative prosperity rural Manitoba made a definite effort to raise the standard of education. It is a matter of record that in the period since 1921 rural Manitoba has had to so drastically reduce expenditures as to sacrifice much of the gain made previously.

During the same period in the city of Winnipeg, despite the relatively larger increase in the number of students, the total expenditure only increased 50 per cent and the average salaries of teachers increased from \$873.00 to \$1,697.00. The relative lower increase in expenditure in Winnipeg is undoubtedly due to the fact that in 1911 level of education was relatively much higher than that of rural Manitoba and there was not the same need for expenditure.

We now come to the item of "Decline of Dominion Subsidy and Increase of Direct Taxation as Percentage of Provincial Revenue". As will be seen from Table 1, the expenditures on current account increased from a total of \$3,002,826.28 in 1911 to \$10,401,895.49 in 1921, or a per capita increase of from \$6.51 to \$17.05.

In Manitoba, as Table 2 will show, while the Dominion subsidy as a percentage of current account revenue has declined steadily from 1875, when it was 88.08 per cent, until 1911, when it was 4.27 per cent, the non-taxation revenues had taken up the slack by increasing from 11.92 in 1875 to 63.63 per cent in 1911. Thus, in spite of the fact that the Dominion government subsidies in 1911, as a percentage of the total current account revenue, were less than a third of what they were in 1875, the non-taxation revenues as a percentage of the total current account revenue, having increased almost six-fold, had taken up the whole slack with the exception of taxation revenues, which, as a percentage of total current account revenue, were in 1911 only 12.10 per cent.

In Appendix A attached hereto are shown the amounts credited to the current revenue account of the province from all direct taxes levied in Manitoba's financial history from the time when such direct taxes were respectively first levied until the present.

An examination of the statement will show the years from 1906 to 1937. Then follow the various headings. The first one is "Supplementary Revenue Levy by Municipal Commissioner"; then "Auto Licence, Succession Duties, Amusement Tax", and so on. The amounts collected are shown; that is, the actual receipts from these taxes. It is to be noted, however, that the figures from 1915 to 1933 are on a revenue earned basis, since the different accounts were

set up on a revenue basis. Below that is a very brief - really too brief to be even substantially accurate - reference to the various statutes under which those taxes were levied.

If the Commission will look at the year 1911 they will see there was levied in that year the small sum of \$14,500. for automobile licences, \$165,860.02 for succession duties, \$237,724.22 corporation tax including railways, and a total amount of direct taxes of \$418,084.24. In 1921 there was a supplementary revenue levy on land of \$1,514,106.00, or almost four times as much as the total direct taxation in 1911. In that year automobile licence taxes amounted to \$538,678.46, succession duties \$299,105.38, amusement tax \$339,249.00, unoccupied land tax \$283,410.10, corporation tax \$1,111,352.16, public welfare \$225,000, or a total of \$4,310,901.10.

THE CHAIRMAN: Corporation tax that year was very much higher.

HON. MR. GARSON: Yes. I think that must be due to some unusual circumstance, because if you will refer to the bottom you will see that the next year is a nine month period. 1923 is a full period and it is \$400,000 short as well.

THE CHAIRMAN: 1923 was \$300,000.

HON. MR. GARSON: Yes, that is right. If your Lordship will look at the corporation tax legislation at the bottom you will see that there were no amendments to the statute between 1913 and 1924; so it is not to be attributed to that. Mr. Bracken has just pointed out that Manitoba ran into three bad years at that time.

An examination of this appendix reveals that the direct taxation levied in 1911 under the headings of Succession Duties, Corporation Tax, Railway Tax and Automobile Licenses was not, in its amount at any rate, of the onerous character conceived by Sir. A.T. Galt as a check upon governmental extravagances or reckless expenditure. Upon the whole, therefore, although there were trends in government expenditure between 1901 and 1911 which reflected a growing social consciousness on the part of Manitobans and a corresponding 75 per cent increase in per capita expenditure, it may be said that the Galt plan was still working reasonably well.

But this could definitely not be said in 1921 when the Dominion government subsidy, as a percentage of the total current account revenue, had declined to 15.01 per cent and the non-taxation revenue to 41.01 per cent, thus necessitating the imposition of direct taxes for the amount of 43.98 per cent. Appendix A indicates that by 1921 at least five of them fell definitely into the category of direct taxation of the kind conceived as a check by Sir A.T. Galt.

THE CHAIRMAN: The Manitobans are long sufferers.

HON. MR. GARSON: Yes. I think an examination would show that these demands for increased social expenditure, having once been realized, have increased steadily until the present time. Their fulfilment has forced the government of Manitoba to impose direct taxation upon the people of Manitoba beyond any limits which could possibly have been conceived when the financial plan of Confederation was enacted.

Thus, in 1936, we find that the Dominion government subsidy as a percentage of the total current account revenue was 12.27 per cent, whereas taxation revenues were

no less than 53.81 per cent. In 1936 the non-taxation revenues of the province at 53.92 per cent of the total current account revenue were less than the percentages for 1901, 1911, 1921 or 1931. In other words, the non-taxation revenues as one indication of the income of the province had declined, yet in spite of this decline which would ordinarily indicate a policy of lower taxation, it was necessary to increase the taxation revenues as a percentage of total current account revenue of the province by a substantial percentage over what they were in either 1921 or 1931 and to more than four times what they were in 1911.

NEW PUBLIC DEMANDS UPON PROVINCIAL GOVERNMENT
CAUSE IT TO COLLECT AND SPEND INCREASING PER-
CENTAGE OF PROVINCIAL INCOME.

One of the first results from these new demands upon the Manitoba treasury was that it commenced spending amounts which were a constantly increasing percentage of the provincial or people's income. These amounts were, of course, collected by taxation. As this percentage increased, the interest of the treasury in provincial income took on a new concern as to the effect of all those factors which determined provincial income. In 1881, when the provincial treasury had merely to provide for police protection, education, administration of justice and public works, it was under no necessity to concern itself as to the effects of federal tariff or monetary policy upon provincial income. But it could no longer afford to ignore these factors in 1921 when the provincial treasury had to impose large amounts of taxes upon that income to defray the increasing costs of government, brought about by meeting new demands for social services and for new governmental facilities.

PROVINCIAL GOVERNMENT HAS NEW CONCERN IN
DOMINION POLICIES AFFECTING INCOME OF
CITIZENS OF PROVINCE.

For this reason provinces have come to have a vital concern in Dominion policies as affecting not only the provincial income but also its distribution within different income brackets.

I shall have figures on that point later on, Mr. Chairman. The real turning point in Manitoba's financial history came in the period between 1911 and 1921. From that point on until the present time it has been merely a working out of the trends which first made their appearance in that decade, accelerated, it is true, by the depression and crop failures which intensified the effect upon Manitoba's economy of the disabilities under which the citizens of Manitoba have suffered under Confederation.

PERIOD 1922 to 1937 COVERED BY BANK
OF CANADA REPORT.

The Bank of Canada report upon the financial position of the province of Manitoba, made on February 11, 1937, states concisely the gist of Manitoba's developing financial position from 1922 to 1936. It would therefore be an act of supererogation to add to it at this time. The Commission should note, however, in using the figures of the Bank of Canada report that necessary adjustments were made to set them up in the form that the Bank of Canada officials desired to use for their own purposes, whereas the figures that we have used herein are simply extracted from the books of the province and set up without adjustment of any kind. Inasmuch as the gentleman who prepared the figures for the Bank of Canada report is the secretary of the Commission, it is assumed that any reconciliation which the members of the Commission may desire

will be provided by the Commission's secretarial staff. The Bank of Canada report is set out as an Appendix B to this submission.

THE CHAIRMAN: In the questionnaire which the commission has asked your government to answer as well as the other governments is set out a list of figures in connection with all these matters.

HON. MR. GARSON: Surely. There is one point I think I should add here, Mr. Chairman, and that is that this reconciliation between the figures has to be made between these taxation figures in Appendix A and the figures in the Bank of Canada Report in Appendix B because our figures include motor licenses as taxation. I refer to that later on Page 52.

THE CHAIRMAN: I do not think we shall attempt to reconcile your figures with the figures of the Bank of Canada. What we shall do is look at the figures appearing in the financial questionnaire that has been submitted to your government as well as to the other provincial governments.

HON. MR. GARSON: Quite so. I just mentioned that for fear you might think there was some discrepancy. A statement of the province's present position, however, would not be complete without developing in a minimum of detail paragraph five of the summary of the Bank of Canada report reading as follows:

"We understand it to be the view of the government that additional funds must be obtained for the preservation of the road system, for education and for mental institutions. While we do not feel qualified to estimate here how large an amount is needed for additional expenditures of a character which cannot be postponed, we agree

that some additional expenditures are inevitable, and we are not prepared to say that it is practical to increase revenues by further taxation."

As regards the fund required for the preservation of the road system, for education and for mental institutions and other governmental services, we feel that the most satisfactory way in which we can indicate those needs is by stating a series of facts relating to the administration of the various government departments rather than by making any comparison between Manitoba and other parts of Canada as regards the amount of per capita expenditures upon the various items of governmental service. We do this because of the great difference between the various provinces of Canada in the matter of customs, living costs and other circumstances which would have to be adjusted to a comparable basis before a statistical comparison of governmental expenditure could be made as between the provinces.

Instead, we propose to present the actual facts which obtain in Manitoba with a view to enabling the Commission to reach a decision as to whether a proper minimum standard of education, social services, road maintenance and public administration generally now prevails in this province. We shall do so under the following heads:

1. Present budget deficiency in provision for Education.
2. Present budget deficiency in provision for Public Works and Roads and the Maintenance thereof.
3. Present budget deficiency in provision for Public Health and Welfare.

(Page 330 follows)

AFTERNOON SESSION

The Commission resumed at 2.30 p.m.

THE CHAIRMAN: You were at page 19, Mr. Garson.

HON. MR. GARSON: Yes, Mr. Chairman. Before I resume I might point out that Table 4 was as I stated. That is, it is cash expenditures for educational and social service purposes. To resume now with the brief:

BUDGET DEFICIENCY IN PROVISION FOR EDUCATION

"The following is a statement of the extent of the inadequacy of the present financial provision for education in Manitoba, prepared by the officials of the Department of Education.

The history of educational finance in Manitoba between 1911 and 1936 divides naturally into two periods, the period 1911 to 1921 evidencing a continuous growth and expansion of educational services (which we have already very briefly covered); and the period 1921 to 1936 representing a gradual but annual decrease in expenditures, resulting in a process of attrition that left educational standards impaired, essential services starved or eliminated, and increasing evidence that further financial support of schools would have to be provided by means other than the taxation of real property."

On the next two pages of the brief is given a statement of the method of financing schools in Manitoba, and in order to save time I wonder if I might run over the main points briefly myself, perhaps not quite so accurately, in order to explain the way in which school financing is done. The schools are in receipt of a statutory grant from the municipality of \$2.25 per teacher per day.

THE CHAIRMAN: They receive it from the municipality?

It is a statutory obligation?

HON. MR. GARSON: That is right. \$2.25.

THE CHAIRMAN: Per teacher per day?

HON. MR. GARSON: Yes.

THE CHAIRMAN: Then they receive from the province a statutory grant of \$1.00 per day. That is altogether \$3.25 per day.

HON. MR. GARSON: That is correct, and it is received for two hundred days of a teaching term. The Secretary treasurertakes the statutory receipts and sets them up on one side of his estimate sheet, and on the other side he sets out all his estimates. He deducts the statutory grants from his estimates, and then he asks the municipality to levy what is called a special school tax upon the assessed value of the land in that school district only. Then the municipality collects these taxes and accounts to the school district automatically for the first statutory grant. The special school tax has to be paid only as collected up to a certain date, after which date the whole amount has to be paid.

As will be seen from the text of the brief, there are certain special governmental grants which are given in cases of special need. But the point is that the first effect of a depression is met in a school district by the school trustees drawing in their horns and economizing in order to avoid having to levy a special school tax upon the land in their particular district.

THE CHAIRMAN: Are many of these school districts able to carry on with the statutory grant?

HON. MR. GARSON: I cannot speak exactly as to that, Mr. Chairman, but from my observation I would think that the majority of them are not able to. They have to levy a special grant, maybe one or two mills up to as high as

seventeen or eighteen mills. At any rate the point I particularly wish to make is that the first cushion of the depression is the expenses of the school district and the school teachers' salaries, which is usually the largest single item; and it is not until that slack has been taken up that the special grants from the department are invoked. Therefore the amount of the departmental grants is not necessarily an indication of the expenses of education or of the adequacy of the grants. What is more important and more significant is the school teachers' salaries; the number of schools that are operating for a period less than the usual term; the number of schools that have a larger body of pupils than can be efficiently taught.

THE CHAIRMAN: Do the conditions you have now spoken of apply to the 1911 to 1920 period or solely to the period from 1921 to 1936?

HON. MR. GARSON: I have no doubt that in the period from 1911 to 1921 there may have been a number of individual school districts where hardship was experienced, but in general what I am now speaking of applies from 1921 to 1936, and so much so that in 1924, which was in the depression period starting around 1921 or 1922, the school situation became so acute that it was necessary to provide certain automatic so-called assessment grants which were given to school districts with a low assessment, the assistance being in inverse ratio to their assessments; the smaller assessment they had, the more help they got. That was automatic and continued from 1924 to 1933, and that is important evidence as to the difficulty in school financing that obtained during that period.

THE CHAIRMAN: Was not the situation very materially improved in the period from 1926 to 1929?

HON. MR. GARSON: Not in those districts because

the grant, which was made on an assessment basis, was designed to take care of the sub-marginal areas and those less fortunate areas which would not feel the benefit of improving conditions so much.

Now I would like to turn to page 21, at the bottom of the page:

"Moreover, the financing of education in Manitoba is complicated by two important factors.

(1) As we have seen the real burden for educational costs (approximately 85 per cent) is borne by the local units (school district and municipality) from revenue raised almost entirely by real property taxation.

(2) The province has one large city, Winnipeg, which contains approximately one-third of the entire population and owing to greater concentration of wealth and population can afford a much higher standard of education than the rest of the province under the present basis of school financing.

Any comparison of statistics that includes Winnipeg on the same basis as the other parts of the province is obviously misleading because its situation is entirely different. Consequently in Table 8, which follows, we set out the number of teachers, the amount of teachers' salaries (excluding salaries for supervisors and substitute teachers) --which would throw the figures out--the amount of total expenditures and the school population for the city of Winnipeg; for the province excluding Winnipeg; and for the province as a whole, in each case

for the years 1911, 1921, 1931 and 1936."

I think it is unnecessary for me to comment on the figures in the Table because the text itself goes on to comment upon it.

Then on page 23 we have Table 9 which shows the cash receipts of schools from provincial grants and local taxation, giving the actual percentages in both cases;

"It will be seen that since 1911 the percentage of actual cash receipts of schools in rural Manitoba shows the province paying a greatly increasing share, practically all of this increase having taken place since 1921."

That is another indication, Mr. Chairman, of the condition you were speaking of. In other words, what has happened is this: The difficulties of the school districts have caused the financing to go completely through the slack of economy and commence impinging upon the provincial treasury and increasing its percentage by about 50 per cent:

"The share of the total paid by the province in rural Manitoba has risen from 16.6 per cent in 1921 to 23.4 per cent in 1936. On the other hand, although the actual amount of the cash grant has increased in the city of Winnipeg, there has been a progressive decrease in the percentage of provincial contribution. In the terms of actual cash, rural Manitoba has decreased its cash contribution--

That would be through the land tax;

"--to education from \$4,747,164 to \$2,951,733."

That is, a little but over one-half the amount is still being contributed. In other words, while the rural dis-

tricts were decreasing by almost \$18,100,000, Winnipeg had increased by about \$500,000.

THE CHAIRMAN: Was this increase wholly in the depression?

HON. MR. GARSON: That will be shown by Table 9.

THE CHAIRMAN: I thought the figures were from 1921 to 1936?

HON. MR. GARSON: Yes, that is right.

THE CHAIRMAN: You see, that was a period where for some years there was very marked prosperity.

HON. MR. GARSON: There was marked prosperity, it is true, but the peculiarity of school financing in Manitoba is such, as I have pointed out before, that even relatively prosperous conditions still leave obligations in these poorer areas. In other words, the whole basis is wrong. A large number of school districts are quite incapable in the best of times to carry the burden of education.

THE CHAIRMAN: That is a provincial problem.

HON. MR. GARSON: Precisely, but my purpose in bringing it up is to indicate the increment which it necessitates in our budget and which we must take care of. To continue with the brief:

"It cannot be argued that there was a greater desire to pay in the city of Winnipeg, because as a matter of fact the rural areas taxed themselves far beyond the limit of their ability to pay. This fact is shown in the following tabulation, which indicates the amount owing to the schools by the municipalities for school taxes in the area designated as rural Manitoba. The tabulation which follows shows an increase from

\$754,858 in 1911 to \$2,240,394 in 1936.

Then I go to the first paragraph on page 24:

"The figures presented in the preceding tabulation do not give altogether an accurate rural picture because large amounts of arrears of school taxes have been written off. The Department of Education estimates that within the last five years the total amount written off has not been less than \$250,000. It is obvious that the municipalities are finding the burden of school taxation beyond their capacity to pay. If this burden were equalized it would be defensible, but as it is the burden bears most heavily on those municipalities least able to bear it. Remembering that the municipality pays the greater proportion of the total cost of schools, the ability of the municipality, to pay, is all important, but this varies tremendously, as is shown by the following tabulation indicating the respective amount of assessment as between certain broad educational units on the basis of 1935 equalized assessments.

Then the tabulation which follows indicates that on the basis of the 1935 equalized assessments, the amount of assessed value behind each teacher, which had to be supported in Winnipeg, was \$161,760, and in rural Manitoba \$86,100, and in all Manitoba, including Winnipeg and rural Manitoba, \$103,567:

"The inequity hereby revealed becomes, then, more startling when considered in the light of individual municipalities, data concerning which are presented in Table 10 on the following page."

I think in this table will be found the key to the problem with which your Lordship has been concerned, and that is why these districts cannot even in prosperous times carry their schools. Table 10 on page 25 shows that the average assessment behind each teacher in Stuartburn is \$9,160, as compared with \$161,760 for Winnipeg.

THE CHAIRMAN: What is the situation? Just clarify that please. Is Stuartburn a municipality where the lads are sub-marginal?

MR. GARSON: Yes, Mr. Chairman.

THE CHAIRMAN: The standard of living must be very low?

MR. GARSON: Yes.

THE CHAIRMAN: Is it a place where people are likely to move from into some better district?

HON. MR. GARSON: I cannot say that I have given the matter sufficient thought to have really formed an intelligent opinion concerning it, but such as I have formed is this: There is rather a tendency for--how shall I put it?--sub-marginal people to drift into sub-marginal areas, and so far as the adults are concerned that is probably the most economic disposition of them that could be made from that standpoint of ~~the~~ state. They will function better there and be more satisfactory in every way than in any other disposition that could be made. But the crux of the present discussion is this, that their children, who are the future citizens of this country, should have the same standard of opportunity so far as primary education is concerned as any other child.

THE CHAIRMAN: When you speak of the character of these people, is it the moral, physical, or mental aspect you have in mind?

HON. MR. GARSON: It is rather difficult to say. It

is certainly not moral, physical, or mental. I would say it is acquisitional. They have not the same sense of getting along and making their own way, of holding their end up, of dealing and management and providing themselves with the world's goods like other people.

THE CHAIRMAN: There is no reason, then, why their children should not be capable, given a good education of being up to the ordinary standard? It is not a case of being sub-normal?

MR. GARSON: No, not by any means.

HON. MR. BRACKEN: It is more of an accident.

HON. MR. GARSON: As Mr. Bracken points out, it is just as much by accident as by design that they are there. As a matter of fact, I think possibly one portion of my remark was a little strong. I might have better expressed it this way, that where you have a sub-marginal area it is rather difficult for anyone who settles there to have a substance that is above the average, and naturally his environment and subsistence will react upon him over a period of years.

MR. PITBLADO: I think possibly the immigration system has had something to do with it, if I might make the suggestion. A good many of these people came in here as new settlers at a time when the only land available for settlement was this less desirable land, and as Mr. Bracken has said, they went on to those lands more or less by accident. They just drifted into those areas where they could get land cheap. I think perhaps that is a better explanation.

HON. MR. GARSON: That is quite right. Turning again to Table 10, first there is a list disorganized municipalities, and then a second list of Weak Rural Municipalities, where the assessment per teacher varies from \$20,000 as a minimum to \$40,000 as a maximum. Then there is a list

of strong municipalities, and just to show the variations, Macdonald has an average assessment behind each teacher of \$201,000 which is higher even than the city of Winnipeg and over twenty times as high as the first municipality named, Stuartburn.

THE CHAIRMAN: Do they maintain higher educational standards in Macdonald than are found in some of the unorganized districts?

HON. MR. GARSON: I do not think so. I cannot speak with authority on that, but the difference would not be any more than their financial advantages might permit.

THE CHAIRMAN: Could they not equalize the assessment to enable those with a higher assessment behind each teacher to bear a share of the burden of the weaker municipalities?

HON. MR. GARSON: That is precisely the point to which the brief leads, Mr. Chairman. I continue now at page 25:

"The province ^{is} gradually being forced to assume an ever-increasing responsibility in this regard, as evidenced by the fact that at the present time 237 school districts employing 324 teachers are being administered by official trustees. Many of these districts operate for eight months only per year. Only eight districts pay their way and operate full time; others are in need of substantial assistance if they are to discharge their duty and obligations to the children.

The whole situation indicates the weakness of the basic method of financing, which does not fairly equalize the burden of taxation for educational purposes. The situation can be briefly stated by pointing out that since 1921 expenditures for education in rural Manitoba have

been reduced from \$9,323,619 to \$4,417,696 or approximately 50 per cent, despite an increase of \$21,000 in the school population of which more than seven thousand is represented by secondary school pupils requiring a high standard of education. During the same period the city of Winnipeg has reduced expenditures for education from \$3,755,587 to \$3,425,070-- a reduction of approximately eight per cent.

Obviously the greater assessment per teacher has enabled the city to very properly maintain its educational standards."

Now for some results of the present system:

Decline in Teachers' Salaries

"The average salary of teachers in one-room rural schools decreased from \$930 to \$497; the average salary of principals in one-room high schools from \$1,781 to \$931 per annum; the average salary of principals of two-room high schools from \$2,250 to \$1023 per annum; and of all classes of rural school teachers (including high school and elementary) the average salary decreased from \$1,019 to \$660 per annum, a reduction of over forty per cent. But during the same period in the city of Winnipeg a firmer and broader tax basis restricted the reduction in average salary. The average salary in the city of Winnipeg had increased to \$1,838 in 1931, and the present level of \$1,683, while approximately the same as the 1921 level, was considerable below the 1931 peak."

The brief goes on to speak of the deterioration of school

buildings, and I will just pick out the high-lights of one paragraph there which shows that approximately 175 school buildings should be replaced, 350 are in need of major repairs, and 100 school districts need additional accommodation. It goes on to mention the increase in the total of debenture debt, and the impairment of normal school and inspectorial service. The next paragraph deals with the inability to meet the increasing need for rural vocational training;

Inability to Meet Increasing Need for
Rural Vocational Training.

"The modern trend of education is towards the practical and more vocational type. This is particularly true in agricultural provinces such as Manitoba, where if agriculture is to survive it must be reorganized on a more scientific basis. Students must be trained to understand and prefer rural life and to be capable of measuring up to its increasingly exacting demands. The fertile fields of the prairies that yielded abundantly in early years are now less productive and require effective and modern farming methods to produce on an economic basis. There are no longer any assured markets except fiercely competitive markets where only quality products can be sold. Moreover, the drift from rural to urban centres, aggravating and increasing the unemployment problem, can only be successfully attacked in rural Manitoba by providing education which will give the student an opportunity to make himself self-supporting. This involves vocational training in rural high schools, but any such undertaking is not possible under the existing financial set-up.

Position of University of Manitoba

The financial situation as it affects rural and secondary schools has been considered in the foregoing discussion. The position of the University of Manitoba at the present time is one of approximately the same difficulty, due in part to depleted endowments and in part to the economic consequences of the depression. This problem has been in part solved by a series of drastic economies of much the same nature as those made effective in the schools, namely, reduction in salaries and restriction of services. The governmental grants have been decreased from \$501,000 in 1939--30 to \$257,000 in 1937--38. The government recognizes very definitely the difficulties of the University and that these are in effect the same as the difficulties in the rural schools, namely, the lack of sufficient financial support to meet its full responsibility as an educational institution. The government believes that its primary responsibility is for elementary education, but the needs of higher education must be considered. The requirements of the University will be set out in detail in a submission to be presented by its Board of Governors.

Decline in Amount of Appropriation of Department of Education and in Assistance Rendered by it.

Table 11, which gives details of departmental expenditures for 1911, 1921, 1931 and 1936, shows that during the period when the local school district revenues received from municipal taxation were declining and the services

were being impaired, particularly in rural Manitoba, the government of Manitoba, in order to meet a continuing crisis in its finances, had also to reduce its assistance and services in every branch of provincial educational administration."

This problem has been considered by various Commissions in Manitoba, and extracts from the different reports that have been made appear at the bottom of page 28 and on page 29. They are all to the effect, as the Chairman pointed out a few minutes ago, that the only solution is to put the Educational administration upon a different financial basis.

THE CHAIRMAN: Is not that a matter wholly for the province to deal with?

MR. GARSON: Quite.

THE CHAIRMAN: Why does this form part of the material that it is necessary for us to consider?

HON. MR. GARSON: Simply this, Mr. Chairman, that as part of our case we are suggesting that there is a present budget deficiency of 11 hundred thousand dollars in education that has to be met, and we felt that we could not very well come here and suggest that, because it ties into the whole question of our financial obligations, without bringing forward some evidence in support; but if your Lordship is satisfied with the evidence, I am quite content.

THE CHAIRMAN: I am only raising the question that how you base your assessments for your school districts is wholly a question for the province; it is a question of provincial policy. You say that it involves a larger provincial expenditure?

HON. MR. GARSON: Precisely, from the provincial treasury. In other words, the burden of land taxation in many of these areas, such as some of these we have don-

sidered and others that are not even as bad has reached a peak beyond which the law of diminishing returns would commence to operate. You could not levy any more and get any more. So as far as these areas are concerned they can only be assisted from the provincial treasury.

COMMISSIONER ANGUS: Your submission is that even an equalized assessment will not meet the situation?

MR. GARSON: Quite so.

THE CHAIRMAN: Improve it, but not meet it?

HON. MR. GARSON: Yes, that is right. I think that puts it very precisely. It would improve the situation, but in a great many of these areas it would fall considerably short of meeting the situation. The only way it can be met in these areas is by assistance from the provincial treasury. Your Lordship has anticipated the point I was going to make. I have answered it, and now that disposes of all the material under the head of "Education" up to page 30.

The next heading in the brief is "Budget Deficiency In Provision For Public Works And Roads And In Maintenance Thereof." I will try to go over this fairly rapidly. This also is a provincial problem, but it requires money, and that explains the relevancy of this material. The first question dealt with is Building Maintenance, and as pointed out in that paragraph on page 30:

"Normal maintenance operations have not been carried on, but only those which the restricted appropriation would allow. It is impossible to continue with the present reduced appropriation without encountering depreciation of capital values and heavy expenditures to restore the same. Already the Department is faced with the problem of unnecessary depreciation, and in some cases of positive dilapidation. It is estimated that for repairs alone the estimates of the De-

partment should be increased--

That is for building maintenance:

"--by not less than \$50,000 per annum.

Now Buildings

The need for new buildings will be dealt with under the department of Health and Public Welfare.

Then under the heading of " Administration of Labour

Legislation, Accident Prevention, Employment Service of Canada"

there is set out the need for an increased expenditure of \$35,000 per year. That is to take care of a more extended scope of the Fair Wage Act and the Minimum Wage Act, a new Act which has been passed within the last year; also the Strikes and Lockouts Prevention Act, which has been very useful indeed in prevent strikes and settling industrial disputes.

Under the heading "Maintenance of Highways", at the bottom of page 31, is given a list of the various types of highways in the province, and commencing at the middle of page 32 it is pointed out that since the fiscal year ending April 30, 1931, there was spent for the maintenance of goods roads in the year 1931, \$966, 73,041 and for aids to municipalities in that same year \$429,996.95." Aids to Municipalities" is a term which is used to cover a building of market roads in the more outlying parts of the province, and in some cases grants are made to municipalities to aid them in their road building operations. There was expended in Aids to Municipalities in 1931, \$429,000 in round figures, and in 1937, \$139,000. Due to the depressed financial conditions the province has been forced as a matter of sheer necessity to curtail that amount year by year, until it reached a low point in 1935, when the expenditure

was less than 50 per cent of what it had been before.

The expenditure in 1931 is represented to us by the engineers as being a normal one at that time, and during that interval when these large amounts have not been spent, what has really been happening is that the capital values of these roads have been drawn upon. Instead of maintaining the roads we have drawn upon their capital value.

THE CHAIRMAN: You are not building new roads; just seeking to maintain the existing ones?

HON. MR. GARSON: Just seeking to maintain the existing ones, and they have got into such a condition that it is almost a daily occurrence to read letters and complaints, for instance, from the Motor League, about the terrible condition the roads are in, and the complaint is that we are not spending what we should in maintaining the roads in view of the money that is paid by motorists in gasoline tax and licences. They complain that they are not getting value for the money thus spent. As we point out in the brief:

"The surface of the road has worn down below prairie level in quite a number of places, necessitating greatly increased costs of snow removal. Each year sees additional requests for highways to be kept clear of snow throughout the winter."

That is not the extravagance it might seem because we make as much out of the gasoline tax by keeping the roads open as we spend in doing so, providing we are careful in selecting roads where there is a reasonable amount of traffic.

The Hon. Mr. Bracken has pointed out to me that my statement a moment ago in regard to not building new roads was not exactly correct, and that our expenditures are not confined to road maintenance. We have been building some

new roads in Manitoba as unemployment relief work projects, under an arrangement with the federal government, but I did not consider that road building in the ordinary sense. It does not appear in these appropriations at all. I quote again from the brief :

"Each year sees additional requests for highways to be kept clear of snow throughout the winter. To do this economically requires--

So the officials of the department advise us:

"The rebuilding of a large mileage of our highways, the providing of additional snow fence and the purchase of considerably more snow-ploughing equipment."

The capital value of some of the roads has been so heavily drawn upon and their physical condition is so bad that in some cases it is impossible to operate snow-ploughing equipment over them. The whole policy in regard to road maintenance has not been one of wisdom, but it has been forced on the government through necessity, and in the long run it will cost the treasury a great deal more than if adequate provision had been made from year to year, at a figure comparable with the expenditure for maintenance for good roads in 1931.

Then in the middle of page 33 is given a "Normal Budget for Maintenance of Roads."

Below is presented a normal budget for the maintenance of roads. This budget will not provide for increase in our present mileage of maintained roads. It will make no allowance for traffic increases, nor allowance for badly needed betterments. It will provide merely an efficient maintenance of the mileage which the Department now maintains inadequately by reason

of the present severely reduced estimates:

Provincial Trunk Highways and Main Highways	\$1,300,000.00
Aids to Municipalities More Sparsely Settled Districts in Unorganized Territory, and Roads in Mining Areas	400,900.00
	<hr/>
Total	\$ 1,700,000.00

THE CHAIRMAN: That is contrasted with the actual expenditure in 1937 of \$484,000 for maintenance of good roads and \$139,000 for Aids to Municipalities?

HON. MR. GARSON: Quite right. As a matter of fact, the figure given in the budget is a little over \$300,000 more than the expenditure in the peak year of 1931. I raised that point with the departmental officials and they advised me that our maintenance has been inadequate for so long, for six or seven years that we would require this amount from this point on in order to take care of such rebuilding as is necessary and also take care of current maintenance. I quite agree that this might have been developed in greater detail but perhaps the brief is overloaded with detail as it is. Then continuing with that same paragraph:

"This amount, however, is considerably below the amount required to bring our highways up to the standard required by modern traffic conditions."

That statement, I presume, means this, that once the density of traffic gets beyond a certain point, it is more economical to have hard-surface highways from the standpoint of expense alone, apart from any other advantage. The paragraph continues:

"It will be observed from the foregoing that the increases required in the Department

of Public Works and Labour, over and above the actual expenditures for the fiscal year ending April 30, 1937 are for--"

a total of \$1,161,000.00.

Next we come to the paragraph at the bottom of page 33, "Budget Deficiency in Provision for Health and Public Welfare". I will not deal with that in detail but I might quote Paragraph 4, at the top of page 35:

"4. Mental Defectives.--Our present accommodation for mental defectives is adequate for 300 inmates. Into these quarters we have crowded 410 patients. We have on file 170 applications for admission to the institution and these are all urgent cases. There are at least 200 more known cases which require institutional care. This necessitates an immediate capital expenditure of \$300,000 to provide accommodation of at least 250 beds, in addition to the \$65,000 addition to the Fortage la Prairie institution now under construction.

The forty beds now being provided by this addition, which will be ready by next spring, and the increase in the cost of food, will mean an increase in the present appropriation for maintenance of \$25,000. As additional accommodation is secured, a further increase of \$300 per patient for maintenance will have to be provided. If we obtain the accommodation required we will need an appropriation of \$215,000. for the care of mental defectives for the year ending April 30, 1947."

If all our treasury problems came no closer than that we would not need to worry so much.

THE CHAIRMAN: The situation might be very much better very much worse.

HON. MR. GARSON: Yes, but I think it is very proper that the gentlemen who prepared this report should have looked forward in this way. Continuing with page 35, the brief points out that capital expenditure for patient accommodation at our mental institutions and additional expenditures for farm buildings are urgently required at Brandon, Selkirk, and Portage la Prairie, requiring a total of \$35,000.

Then turning rapidly to page 37 detailed amounts are given of the requirements under the Department of Health and Public Welfare, and I would call attention to the last item of \$100,000 for Disease Prevention, which is immediately and urgently required and should be provided at once. The paragraph on Disease Prevention appears on page 36, and the case that is made there is that by the expenditure of an extra \$100,000 per year the cost to the province in the long run for institutional care and social service costs of one kind and another would be decreased. I strongly recommend the text of that section to the Commission, but I shall not detain them now by reading it.

Then at the bottom of page 37 we have this:

Manitobans as Canadians Entitled to Receive
their Share of National Minimum Standard of
Relief Without Wrecking Finances of Province and
Municipalities in Order to Provide Such a Stan-
dard.

"We believe that there should be a reasonable minimum standard of education, public welfare, relief and other social benefits provided for Canadians in all parts of Canada. We submit that the conditions which we have just described indicate that at present in many respects that minimum standard is either not being attained

in Manitoba or is in jeopardy if the province's financial position is not improved. Not only are we unable to provide out of provincial revenue a proper minimum standard under all of the headings we have mentioned, but the fact is, as the Bank of Canada report indicates, that during the years of depression the province has been able to meet debt charges and, at the same time, provide the services which it has rendered to its citizens, only because it has received aid from the Dominion government on a large scale. This aid consisted of direct loans, Dominion guarantees and Dominion share of Manitoba relief and reached an estimated total as at March 31, 1937 of no less than \$51,750,588.00. This amount of money was granted, lent or guaranteed by the Dominion when it would have been impossible to secure it through the ordinary commercial channels. In other words, if the Dominion government had not granted, lent or guaranteed this money to the Province of Manitoba, the province would have been forced to default."

COMMISSIONER SIROIS: Have you the amounts separately for the figure you have just quoted?

MR. GARSON: The separate amounts are in the Bank of Canada report which appears as Appendix B in this brief.

(Page 361 follows)

From the foregoing explanation of the trend of provincial finances in western Canada generally and in Manitoba in particular it is obvious that a continuance of the present policy means that those provinces for which the need for social assistance is greatest are, largely as the result of the conditions that created the need, the least able to provide such assistance. The fact that not only Manitoba, but also Saskatchewan, Alberta and British Columbia have had to go millions of dollars into the debt of the dominion government as the only source whence they could secure money for relief is conclusive proof of it.

At page 91 of this brief we give a summary. Perhaps I might give here the breakdown as set out on that page of the brief:

" Dominion guarantee re provincial savings office and covering funds to provide for payment of obligations..... \$ 12,750,588

Dominion loans to assist in financing relief, (estimate to March 31, 1937)..... 19,000,000

\$ 31,750,588

Dominion Government's share of relief costs, (estimate to March 31, 1937)..... 20,000,000

Total assistance in the form of loans, guarantees and dominion relief expenditures (estimate as at March 31, 1937)..... \$ 51,750,588

THE CHAIRMAN: In that statement you speak of the dominion government's share of relief costs. I thought the dominion government itself bore a share which was not charged against the province.

HON. MR. GARSON: Quite so, my lord, but the statement is that the province has received it in the form of loans and guarantees, and the \$51,000,000 odd is the aggregate under these three headings.

THE CHAIRMAN: I do not understand why it is put in that form.

HON. MR. GARSON: I have merely quoted from the report.

The Honourable Charles A. Dunning, in his budget speech on February 25, 1937, reported that as at February 15, 1937, the western provinces owed the dominion the following sums for relief advances only:

Manitoba.....	\$ 19,415,856
Saskatchewan.....	51,898,717
Alberta.....	25,759,748
British Columbia.....	30,345,079
<hr/>	
Total.....	\$ 127,419,400

Next I come to the material given under the heading "The Insuperable Disadvantage of Financial Plan of Confederation is that it will not work."

The natural economic disabilities which affect citizens of this province, to say nothing of the economic disabilities under which they suffer as the result of certain branches of dominion government policy, do not disentitle them to a national minimum standard of social benefits. This they are not now receiving in proper measure.

THE CHAIRMAN: When you say that governmental policy

does not disentitle them to a minimum standard of social benefits, do I understand that you are seeking to establish a new principle as to the financial basis of the relations between the dominion and the provinces? In the past, the standard of social well-being has never been recognized as a principle.

HON. MR. GARSON: I believe that is right, my lord. It is, in fact, a new standard; but I submit that merely because it is a new standard is no proof that it is unsound. We are faced here -- I am dealing with the text of the brief on page 38 -- with the condition in which at least three of the provinces of Canada find themselves insolvent.

For some years past they have not been paying current expenditure including relief, which is by any proper test a current expenditure. They have not been able to borrow for relief purposes or, more realistically and accurately stated, they have not been able to fund their deficits in the money markets -- because that is what it amounts to.

If the dominion government had not lent the money with which to meet their current expenditures, including relief, they would have long since gone into default. Whatever therefore may be the theoretical disadvantages or advantages of the financial plan of Confederation, it has an insuperable practical disadvantage in that it will not work. It has not worked in any of the three prairie provinces for at least five years.

The Honourable Charles Dunning commenting on this situation, said in the House of Commons:

" May I point out that if we continue along the road we have been travelling we shall soon reach

the point at which, in connection with several of the provinces, the dominion will be the principal creditor. Indeed, continuing at the rate at which we have been accumulating obligations of this kind, we may be sure that we have not far to go until we reach the stage where the dominion might be the majority creditor of a province. Is that a desirable condition into which to drift? We have only to continue drifting along the lines followed in the past five years to reach that situation within a measurable time."

Not only has the financial plan of Confederation not worked, but there is no indication that it will work for all provinces, even with the return of such normalcy as we can legitimately expect.

To prevent the western provinces and municipalities being forced into default, Canada must provide an alternative plan which will work; or be prepared to face the inevitable consequences of such default to the business and financial world and to the credit of Canada.

Advantages to Industrial Provinces under Confederation.

We have set out the position of the Manitoba treasury after 67 years of Confederation. We have seen that the dominion-provincial plan of Confederation was unsound from the beginning and that this has contributed in large measure to the treasury problems of Manitoba. But since the question might be raised as to why Ontario and Quebec have been able to prosper under this same plan and other provinces have not been able to pay their way, it is pertinent to quote the Honourable Mr. Rogers, writing in The Canadian Forum, December, 1934, under the

title "One Path of Reform," as follows:

" The tendency of the tariff system of Canada has been to concentrate manufacturing activity in the provinces of Ontario and Quebec, whereas the burden of maintaining the protective tariff has been distributed throughout all the provinces and falls with particular weight upon those provinces whose income is derived chiefly from primary production and export markets. The abnormal concentration of manufacturing activity in the central provinces has had important effects upon the productivity of income taxes and corporation taxes in the various provinces. It has increased to a marked degree the number of companies subject to direct corporation taxation in the provinces of Ontario and Quebec. It has also contributed materially to the larger corporation and individual incomes of these provinces.

It is not too much to say that the protective system has fertilized the income tax field in Ontario and Quebec by a process which has resulted in the partial impoverishment of this field of taxation in other provinces whose economic development has been prejudiced by the effects of the fiscal policy of the dominion."

THE CHAIRMAN: That, I suggest, is placing too much stress upon one particular policy. The geographical position of the central provinces, with their water power and other factors of that kind, would have produced a concentration of population and of wealth under any system of tariff as compared with provinces in which there is limited industrial development.

HON. MR. GARSON: I fancy, Mr. Chairman, that the idea which Mr. Rogers is attempting to develop here

is not merely the concentration of wealth in the industrial provinces but the process whereby that concentration is intensified to the impoverishment of the other provinces.

COMMISSIONER DAFOE: Mr. Rogers uses the word "abnormal"

HON. MR. GARSON: Yes.

THE CHAIRMAN: Mr. Rogers, prior to that time, had prepared a brief in connection with the Claims Commission in the maritime provinces, where the tariff was one of the main points stressed, and possibly he had in view a particular situation in preparing his brief, and retained that view just as Lord Haldane retained, even after he became a Member of the Judicial Committee, certain views which he held while at the Bar with respect to the interpretation of the British North America Act. It may be therefore that after Mr. Rogers had ceased to be an advocate in the province of Nova Scotia, the impression he there formed remained with him and led him to place undue emphasis upon one phase of the matter instead of taking a more comprehensive view of the situation as a whole.

HON. MR. GARSON: Of course, Mr. Chairman, one's view of the opinions held by Mr. Rogers and of what has happened to his thinking would depend upon whether or not one agreed with him. Agreeing as I do with Mr. Rogers, I am inclined, with due respect, to take issue with the view you have just expressed.

As an example of this situation as indicated in the quotation I have just read, let us compare the various income groups paying dominion income tax in Manitoba and Ontario, respectively, in 1935-36. In this connection

I would refer the Commission to table 12 at the top of page 40. The total amount of income tax collected by the dominion in the two provinces of Ontario and Manitoba in the same year, 1935-36, the first noteworthy point is that the total collections in Manitoba were \$1,043,179.17 whereas in Ontario they amounted to \$16,806,390.74. These, by the way, are tax collections from individual tax payers rather than from corporations. But what is more noteworthy still is the distribution as shown by the various income brackets. In the income bracket of \$50,000 and over there were 152 tax payers in Ontario who paid a total tax of \$6,216,354.46. There were none in Manitoba. In the income bracket of \$45,000 to \$50,000 there were 36 taxpayers in Ontario who paid a total of \$401,622.51. There were none in Manitoba. In the income tax bracket between \$40,000 and \$45,000 there were 56 taxpayers in Ontario who paid \$515,309.99 while in Manitoba there were 5 who paid \$59,783.10 .

Let me go on to cite another example -- and I admit freely that it is not an illustration of the operation of the tariff because as a matter of fact I believe it proves the point which your Lordship touched upon a moment ago, namely, that in part the advantage arises from factors other than the tariff. It illustrates however the difficulty in which Manitoba's treasury finds itself, and illustrates it quite as much as these other figures do.

As another example we may cite the case of one of the largest mercantile corporations in Manitoba. This corporation, although having its head office in Ontario, has millions of dollars invested in Manitoba, upon which

large sums are earned as interest and profits. Yet very little personal income tax accrues to Manitoba from these earnings, and a careful search made in our succession duties office fails to reveal a single cent of succession duties having been paid in Manitoba in respect of stock held in this company. This statement will explain in part why, for the fiscal year ended April 30, 1936, Manitoba succession duties collections were \$375,044.60, whereas those of Ontario were \$11,984,720.55.

COMMISSIONER ANGUS: As a matter of fact, do we not find the same condition in any country that has really attracted foreign investments?

HON. MR. GARSON: I think that is true, Mr. Commissioner; but it is none the less one aspect of the treasury problem, and where investments happen to have been made by residents of another province the effect has been to transfer the profits from the one to the other. I think there is something more than simply a theoretical significance in the foreign investment situation.

COMMISSIONER ANGUS: Is it not reasonable to say that the people in the country in which foreign investments have been made may be better off, with those investments, than if they had not been made?

HON. MR. GARSON: Would you mind repeating that question, sir?

COMMISSIONER ANGUS: I was suggesting that the country in which the foreign investment is made may be better off as a result of that investment than if it had not been made. Canada as a whole, at one time or another, has attempted to attract foreign investments.

HON. MR. GARSON: That is so.

COMMISSIONER ANGUS: Has that been prejudicial?

HON. MR. GARSON: Not at all; but with due respect I suggest that that is not the principle I am trying to discuss here. What I am suggesting has nothing to do with foreign investments in Canada, even by way of illustration. Where, however, you have Canadians in Ontario drawing profits from Manitoba, when in relation to Manitoba they may be said to be foreign investors, you have a good reason for putting into effect a financial plan which will take cognizance of that situation.

THE CHAIRMAN: If that argument were followed to its logical conclusion, it would lead to the suggestion that the dominion should take over the income tax field, because income is derived from investments made throughout Canada. Is that your suggestion?

HON. MR. GARSON: No, my lord. If we do not go as far as that it is because of the embarrassing financial necessity under which we have had to operate. We say that it is not a solution of our financial problem for the dominion to retire from the income tax field, because we take the view unequivocally that it is a desirable condition to have the dominion collect income tax and in that way effect a redistribution of wealth.

COMMISSIONER DAFOE: Is it not a fact that if the conditions to which you refer continue it will foster the movement, already well under way in the provinces, of encouraging, by means of a disguised form of protection, the creation of native industries within the province?

HON. MR. GARSON: It has already had that effect. Something of that sort has been attempted.

COMMISSIONER DAFOE: I believe it has been done in a tentative way.

HON. MR. GARSON: At the present time we have an income tax of our own, and we have a special income tax of a very onerous character, the sum of the two being a buttress to our treasury which we could not possibly do without. We are therefore not in a position to speculate theoretically as to what we should like to have. We must have that revenue in order to carry on. If however we were not under that necessity, I say unhesitatingly that, as the Chairman has pointed out, the necessary corollary to the argument that I have made is that the dominion should collect all income tax. But the fact is that we cannot take that position here simply because we need revenue.

THE CHAIRMAN: I am not suggesting that it would be wise or unwise, but it would appear to be the logical outcome of your argument.

HON. MR. GARSON: I come now to the heading, "Manitoba's Taxation in Relation to Income."

THE CHAIRMAN: You have many industries --

HON. MR. GARSON: Oh, yes.

THE CHAIRMAN: --- which enjoy the benefit of protection?

HON. MR. GARSON: I think they do, perhaps, but not to the same extent as do the eastern industries. So far as that is concerned, however, I cannot pretend to speak as an expert.

THE CHAIRMAN: But is it not the same tariff that protects them both?

HON. MR. GARSON: Quite so; but I think your Lordship will agree when I say that the same tariff might afford

greater or less protection according to the circumstances affecting the particular industry. Although, as I say, I do not pretend to speak as an authority with respect to the tariff, I suggest that one of our difficulties in that regard is that most of our industries in which really large amounts of money are invested are processing concerns and flour mills that cannot in the nature of things derive from the tariff the same degree of protection that can be afforded a manufacturing plant turning out automobile parts, textiles and commodities of that sort.

THE CHAIRMAN: But the industries to which you refer receive sufficient protection to prevent serious American competition?

HON. MR. GARSON: I am afraid I cannot speak authoritatively on that point, my lord. However, Dr. Grant, who is our tariff expert, tells me that these industries do not get any protection, and in the absence of other advice I am prepared to accept his statement. Coming now to Manitoba's Taxation in Relation to Income:

Dominion tariff policy, dominion monetary policy, certain inherent disabilities elaborated elsewhere in this brief, the crop failures and low prices of recent years, all have so reduced the income of Manitoba's citizens, while simultaneously creating demands upon the provincial treasury, that, in spite of the most rigid economy in the general expenses of the government, the percentage of income collected in provincial and municipal taxes in Manitoba had come to be the highest in Canada in 1933. Yet this was in spite of the fact that Manitoba's per capita municipal and provincial tax receipts actually decreased from \$34.66 in 1926 to \$33.55 in 1933, although they increased in all other provinces except Alberta and Saskatchewan.

Similarly, although the net public debt of the province only increased by a smaller proportion in Manitoba between 1926 and 1935 than in any other province of Canada on a per capita basis in this same period, this same debt, as a percentage of income, showed a rate of increase just about equal to the average for Canada. Manitoba's aggregate municipal and provincial public debt, as a percentage of income, was second highest in Canada in 1933.

Manitoba's debt and taxation problem can be stated, therefore, in either of two ways. It can be said, as in Part V, that the burden of debt and taxation in Manitoba is high in relation to income; or the relationship can be stated in an equally correct and perhaps less misleading way by saying that since public debt and taxes both arise in respect of services rendered to individuals by the government, the extent of those services, as measured by either per capita debt or per capita taxation, being approximately equal to the average of all provinces, is not at all out of line in Manitoba as compared with other provinces. In fact, having regard to a variety of provincial problems and disabilities not arising from its own policies which are elaborated elsewhere in this brief, it is a modest provision. The gist of the problem is the income of Manitoba's citizens, which is low in relation to public debt and taxation. The lowness of provincial income is caused by the disabilities which we have just referred to but the precise effects of which, although undoubtedly oppressive, are difficult to isolate and measure; and by dominion monetary and tariff policies, the effects of which we have measured in Parts III and IV of this brief.

Main Causes of Manitoba's Treasury Problem.

The main causes of Manitoba's treasury problem, therefore, are:

"1. The fact that the nation and its provinces are trying to work under a Constitution and a financial plan which is part of it, both of which were conceived upon the basis of a social philosophy quite different from that under which governments have to meet the demands of to-day.

2. The fact that the financial plan of Confederation and its amendments from time to time erroneously assumed that increases in the expenditures of provincial government would be proportionate to population; that the economic advantages of all the provinces under Confederation would be approximately in proportion to population and that, therefore, the provinces could be adequately and justly subsidized by equal payments, in proportion to population.

3. The fact that the judicial interpretation of that Constitution and that plan has cast the responsibility of fulfilling the new demands for social service and relief upon the limited tax base and variable and varied taxable capacity of the provinces, whereas the economic fact is that such responsibility can only be sustained by the unlimited tax base, and the more uniform taxable capacity of the whole nation.

4. The fact that the adverse effects of certain dominion policies and of other disabilities have been to lower Manitoba's provincial income to the point at which it will not sustain a reasonable per capita

burden of public debt and taxation.

5. The fact that due to the adverse effects of dominion policies and other disabilities, and to its attempt to discharge responsibilities quite beyond its financial capacity, Manitoba has accumulated a capital debt, the charges upon which absorb almost 50 per cent of its budget on current account."

The problem as distinct from its causes, is clearly that of restoring balance to the budget on current account of the province of Manitoba.

It is scarcely necessary to say in reply to those who point out that this budget has shown a surplus during the past three years, that this condition of apparent balance leaves out of account:

1. Net capital borrowings for relief which, for the period between April 30, 1930, and April 30, 1937, amounted to \$23,736,570.51; and which for the last fiscal year ended April 30, 1937, were over four million dollars.
2. Deficiencies in the appropriations for:
 - a. road and building maintenance;
 - b. the care and housing of the insane and mental defectives and other public welfare charges;
 - c. educational grants.

All of these deficiencies are false economies. Some of them will eventually and inevitably involve the province in the expenditure of larger sums of money than a prudent provision would entail.

I next outline these numerically to show their money value. They total \$2,543,500, which is inclusive of that item of \$100,000 for disease prevention.

The table that follows is merely a repetition of the material developed previously. The third factor which is ignored by anyone who suggests that a budget on current account is now in a state of balance is the fact that provincial revenues include the substantial proceeds of certain taxes, the imposition of which are justified only upon the basis of emergency. The Special 2% Income Tax is said by many to fall within this category. The collections from this tax during the last fiscal year were \$1,825,388.59. For the benefit of those of the Commission who are not familiar, perhaps, with our 2% tax I think I should digress for a moment to give some of the highlights of it. It was originally imposed in 1933 and it was a 2 per cent tax over and above all other income taxes upon all incomes in the province, chargeable upon married persons with incomes of \$960. and over and upon single persons with incomes of \$480. or over. Once the tax payers income reached the figure at which he became liable there was no exemption of any kind or description. The tax payer then became liable for the whole of the 2 per cent tax. For example, a married man with six children, if he got \$959, was exempt; if he got \$961 he had to pay a tax of \$19.22.

MR. CHAIRMAN: Was that because the act was framed that way?

HON. MR. GARSON: Quite. I am not at all defending or attacking it; I am stating a fact. The tax was called a wage tax because it was collected at source from the wage earners -- who contributed by far the larger percentage of the proceeds -- by the employer, as a revenue officer of the Crown. That device was employed to get around the question of direct and indirect taxation. The two percent was collected

by the employer and remitted directly to the Treasury. It is an extremely fruitful tax, an extremely cheap tax because it is collected at source. All that is necessary is to have a staff of clerks to keep track of the collections. Unofficially it is a retrogressive tax. It was a quick tax, and was put on in 1933 to meet an emergency, and has been on ever since.

THE CHAIRMAN: I suppose one of the results has been that the tax payers show a greater interest in the Government.

HON. MR. GARSON: They most surely do. As matter of fact they took such a great interest in the government in the last election they almost ceased to be a government on that very issue.

THE CHAIRMAN: That is one of the ideas that Sir A.T. Galt had in mind in regard to direct taxation. He thought that it would discourage expenditure.

HON. MR. GARRISON: I would certainly suggest no better example of his foresight in that regard than this particular tax.

In 1936 the income figure at which the tax came into effect against married persons was increased from \$960 to \$1200. In 1937 the income figure at which the tax came into effect against single persons was increased from \$480. to \$600; and it was provided that in arriving at the figure at which a married person would become taxable he should be allowed over and above his \$1200. basic exemption an additional \$200.00 for each child. It did seem very harsh upon a man with one child if the law --

THE CHAIRMAN: Without discussing what the limit should be because opinions differ, is it not a good thing in the National interest to have everyone who is able to pay a tax contribute something to the government of the country?

HON. MR. GARSON: It is a very good thing, Mr. Chairman. As a matter of fact later on in my brief I am going to suggest that one of the best ways to finance unemployment would be for the government to put on a tax of that character and finance it as a current expense instead of borrowing money to finance it. Unfortunately, at the present time the opposition is this so far as Manitoba is concerned: we are the only ones apparently, who have seen the virtues of this tax.

THE CHAIRMAN: It is an interesting fact that you are still administering the affairs of the province.

HON. MR. BRACKEN: I submit it was for other reasons than that, your Lordship.

COMMISSIONER DAFOE: The \$1,100,000 would be further increased if further sums were given to the University?

HON. MR. GARSON: Yes, it would.

COMMISSIONER DAFOE: This provides for the maintenance?

HON. MR. GARSON: The \$1,100,000 is provided to meet the needs of rural education only. There is nothing in that for the University.

COMMISSIONER DAFOE: Nothing at all?

HON. MR. GARSON: No. The Chairman said a few moments ago that we are still carrying on as a government. Well, in the last provincial election both the Conservative party and the Liberal party pledged themselves to the repeal of this tax. In the last election every opposition party favoured adjustment of interest rates, and in the one vote which we have had so far on the 2 per cent tax we were able to carry it by a vote of 29 to 25 after a long and bitter debate, with the assistance of the majority of the Social Credit party. So I think perhaps a bare recital of these facts will enable the Chairman to realize to what extent his statement is true.

THE CHAIRMAN: The statement is true. I did not mean to suggest that it was wholly due to this tax.

HON. MR. GARSON: Quite so.

THE CHAIRMAN: I presume the financial record of the government is, no doubt, one of the factors which has helped you in the situation.

HON. MR. GARSON: I believe unquestionably so, Mr. Chairman. I now turn to the top of page 43. In addition to the urgently required current increases in expenditure above noted, the following capital expenditures are required to provide accommodation for the mentally diseased and mentally deficient. The amounts involved are set out in the table and they amount to \$835,000. The first item of \$500,000 is required some time within six years. I think we can dismiss that from the present consideration; but there are buildings immediately required totalling \$335,000.

THE CHAIRMAN: No doubt the problem of the insane and the mentally defective is a very serious one.

HON. MR. GARSON: It is an almost impossible situation. The money has to be provided some way or other. You can't have them running around. It is therefore abundantly clear that from any rational and realistic viewpoint the budget on current account of the Province of Manitoba is actually out of balance by a much larger sum than the four million odd dollars which it was necessary for the province to borrow for relief purposes from the Dominion in the last fiscal year ending April 30, 1937.

ALTERNATIVE METHODS OF BALANCING MANITOBA'S BUDGET ON CURRENT ACCOUNT.

This budget, like all others, can be balanced by increasing revenues and/or decreasing expenditures.

Certain hypothetical methods have been suggested.

We submit the following as being worthy of examination, viz:

TO INCREASE MANITOBA'S REVENUES:

1. By an enlargement of the provincial field of taxation by empowering the provinces to impose ~~indirect~~ as well as direct taxation.

or;

2. By increasing the Manitoba Government's revenue by financial assistance from the Dominion treasury in one or more of the following forms, (leaving untouched the problem of taxable capacity and the present fields of taxation).

- (a) by an increase in subsidy;
- (b) by the Dominion's abandoning the field of direct taxation.
- (c) by a sliding allowance to the provincial governments on a basis of the disadvantage to them resulting from Dominion policies, as established by a certain index to be agreed upon;
- (d) by distributing on a per capita basis of ^r relief population among the provinces, the proceeds of a special tax to be levied by the federal government throughout the entire Dominion, sufficient to cover the whole cost of relief in all provinces.

TO DECREASE MANITOBA'S EXPENDITURES:

3. By reduction of expenditures:

- (a) for general expenses of government;
- (b) for debt charges by debt conversion at lower rates of interest;
- (c) by reducing the rate of incurring of new debt, which under present conditions, can only take

the form of enabling Manitoba to
refrain from borrowing to finance relief.

4. By the Dominion government's assuming the
responsibility for and paying a larger part of the costs
of social services and relief.

THE ESSENTIALS OF A NEW FINANCIAL PLAN.

In weighing these hypothetical solutions it is first
necessary to determine the essentials of the new system of
Dominion-provincial relationships which we seek as a
solution of our present difficulties.

The original terms of Confederation assigned certain
responsibilities to the provincial governments. The
trend of judicial decision has been to widen rather than
to narrow the scope of these responsibilities. As R.A.
MacKay points out, "Nor is it possible for the Dominion
itself to perform those functions entrusted to the
Province. If the Province does not perform them, they
remain unperformed with the result that the whole scheme
of government established by the British North America
Act breaks down. The performance by the Province of its
proper functions is thus vital to the continued existence
of the Dominion as well as of the Province itself." Thus
it is essential that we have a practical plan.

IT MUST BE A PRACTICAL PLAN WHICH WILL CONTINUE TO WORK UNDER CHANGING CONDITIONS.

It must work in the sense of enabling the weakest
province in Confederation, if efficiently managed, to
discharge its responsibilities now and in the future
without drifting first into debt and then into default.
If a proposed plan in this sense will not work and will
not

not continue to work, in the face of changing conditions and political thought, then there is no use considering it.

Since the present plan so obviously does not work, a fundamental change is therefore needed. How should we approach that change, Should we approach it as the Fathers of Confederation did or intended to do, that is, by setting up a strong central government and an inexpensive kind of provincial machinery to do a slight amount of local work? We suggest that, with the advantages of hindsight, we now know enough about the cost of provincial administration in Canada to think that with the greatest conceivable limitation upon provincial powers and function, provincial government could not be carried on in the inexpensive manner envisaged by Sir A.T. Galt. This is particularly so in western Canada, where provincial problems arising from variability of income, dependence upon export markets, population dispersion, and submarginal settlement exist, of which the Fathers of Confederation could have had no conception. Moreover, in view of the volume and extent of services now demanded by people from governments everywhere, it is impossible to suppose that provincial governments could be operated with Dominion subsidies and territorial revenues without imposing reasonable direct taxation.

To maintain the services now demanded of federal, provincial and municipal governments in Canada, taxation, which in the aggregate is much higher than that required to finance the laissez-faire conception of governmental responsibility in 1867 is now essential. The problem is to reallocate between the provinces and the Dominion functions of government and fields of taxation, that the cost of maintaining necessary services will not be

increased by over-lapping and will be so equitably distributed that there will not be placed upon certain economic regions or economic groups insupportable burdens which in themselves create disequilibrium in the national economy and thereby diminish the national productiveness and create unemployment. And indispensable requisite of any such reallocation is that the government left with a function to discharge shall in fact have, and continue to have, a sufficient revenue to discharge that function along with all others for which it is left responsible.

PROPOSAL TO ENLARGE PROVINCIAL FIELD OF TAXATION.

Let us examine the proposal to enlarge the provincial field of taxation, for example, by permitting the provinces to levy indirect taxes. There are several objections to this proposal.

Firstly, the taxable capacity of Manitoba, if not western Canada, has already been exploited to the full within the present field of direct taxation. Except to the extent, therefore, that changes in national policy or in other conditions affecting provincial income increased Manitoba's taxable capacity, there would be no purpose in its attempting to invoke the power to impose indirect taxation, unless perhaps to provide a substitute for objectionable direct taxes to be repealed. Some persons have suggested to Manitoba we might substitute the sales tax for this objectionable 1 per cent tax. Thus the value of this power to impose direct taxation would depend upon the taxable capacity of the province which sought to invoke it. The province which needed the greatest returns from it would get the least. For these reasons it is unlikely that it would be a

practical solution to the financial problems of the poorer provinces.

It is worth while to consider the facts of a case in point.

In 1936, recognizing the impossible position of certain provinces, the Honourable Ernest Lapointe moved that an humble address be presented to His Majesty the King praying for an amendment to the British North America Act to enable the provinces to impose direct taxes upon retail sales and places of amusement or entertainment.

The inadequacy of this proposed enlargement in the provincial power of taxation as a solution from Manitoba's financial difficulties at that time is indicated by the following facts and comparisons:

The whole of Manitoba's own share of relief and relief works for the fiscal year ended April 30, 1936, amounting to \$3,357,027.38, had to be borrowed from the Dominion as the only source whence money could be borrowed by Manitoba. If it had been paid for out of current revenue, which was the only proper method, it would have increased the provincial budget from \$14,438,873.44 to \$17,795,900.82. Manitoba's share of relief and relief works in 1936, a year quite typical of the period from 1932 to 1936, was, therefore, the equivalent of no less than 22.7 per cent of the province's 1936 budget on current account, or the equivalent of 44 per cent of the controllable expenditures for that year. (Being \$14,438,873.44 less debt charges of \$6,821,253.13, or \$7,617,620.31.)

But Winnipeg was also borrowing its share of relief costs in 1936. These amounted to \$1,604,040.21, which was 18.47 per cent of Winnipeg's entire budget on general

account including schools but excluding debt charges. Thus, if it were the intention of the Dominion government to widen the field of taxation available for Manitoba and its municipalities (taking Winnipeg as the example in the present case) in order to pay for relief as a current expenditure, it would have involved raising that year by indirect civic or provincial taxation upon retail sales and hotel and restaurant patronage no less than \$4,961,067.59 (over and above the monies required to pay the shares of relief of all other cities and municipalities in the province). Moreover, this would have been on top of heavy customs taxation which, as has been shown bears with particular severity upon Manitoba; a Dominion sales tax of eight per cent; and provincial and municipal taxation which, in relation to income, has the distinction of being the highest in Canada, and which, incidentally, excludes the 2 per cent special income tax to which reference has been made. Nor is that all. This extra \$4,961,067.59 of indirect taxation would have been imposed in spite of the fact that as between 1931 and 1936 the controllable expenditures of the province had been cut by no less than 22.31 per cent or an amount of \$2,187,439.97, and Winnipeg's "total municipal operating expenses", exclusive of direct unemployment relief, between 1931 and 1936 had been cut by \$371,619.05, or 8.37 per cent. That this proposed widening of the provincial field of taxation in the light of these facts was utterly without practical significance as bearing upon Manitoba's problem is transparently clear. Moreover, this difference of \$4,961,067.59 is so large an amount that no mere improvement in the provincial income or taxable capacity would produce enough revenue to take up \$4,961,067.59 of slack on relief account alone, leaving aside all question of restoring governmental

services and Winnipeg's civic services made deficient by the \$2,187,439.97 and the \$371,619.05 cuts in controllable expenditures above mentioned. Enlarging the field of taxation does not even touch the problem. Some more fundamental adjustment is required.

ENLARGEMENT OF PROVINCIAL FIELD OF
TAXATION WOULD INCREASE OVERLAPPING.

The possession by the provinces of this power of indirect taxation would set up overlapping of federal and provincial taxes over the whole field of taxation. With the Dominion's invasion of the income tax field we now have overlapping direct taxation. From the taxpayer's standpoint we should not multiply this evil by extending the power of indirect taxation to the provinces. In this connection it requires to be emphasized that the discharge of legislative and administrative responsibilities, which overlap as between the Dominion and the provinces, requires the levying of federal and provincial taxes to defray the cost of such overlapping Dominion and provincial services. Thus any division of the field of taxation between the Dominion and the provinces, no matter how scientific, would not wholly prevent the overlapping of taxation if there still remained any overlapping of services, because the overlapping services would have to be paid for by taxes levied by the Dominion in part, and by the province wholly, upon the income of persons in a given province who were simultaneously provincial and federal taxpayers.

Hence, if overlapping taxation is to be avoided completely, it can only come about through the avoidance of the overlapping of services. It is, of course aggravated and intensified by extending to the sphere of indirect taxation the overlapping which now obtains in the field of direct taxation.

PROVINCIAL POWER TO IMPOSE INDIRECT TAXES
IS DISRUPTIVE OF BOND OF CONFEDERATION

Here we come, Mr. Commissioner Dafoe, to the point you raised a moment ago; that is that there is a tendency under existing conditions which have not been corrected, for certain provinces to attempt to interpose interprovincial trade barriers. But, perhaps, the most conclusive argument against empowering the provinces to impose indirect taxation is the one developed with so much force and point by the Right Honourable Arthur Meighen, and not successfully contradicted, that the logical and even likely result of conferring such powers upon the provinces would be to enable them, by imposing indirect "ad rem" taxes upon transactions and upon goods imported into a given province from other provinces, to set up what would be, in effect, a system of trade barriers between provinces which would be in the highest degree disruptive of the whole scheme and bond of Confederation.

PROPOSAL TO INCREASE MANITOBA GOVERNMENT REVENUES

The second main alternative course is to increase the income of the Manitoba government by financial assistance from the Dominion government, taking the form of:

- (a) an increased subsidy;
- (b) the dominion's abandoning the field of direct taxation;
- (c) a sliding allowance to the provinces based on estimated disadvantages to them resulting from national policies, as established by a certain index to be agreed upon;
- (d) distributing to the provinces upon a per capita basis of relief population the proceeds of a special federal tax of general application throughout the nation, sufficient

to pay for the entire cost of relief.

INCREASE IN SUBSIDY BASED ON FISCAL NEED

With the possible exception of the subsidy adjustments made in respect of the retention by the Dominion of the western natural resources (wherein the adjustment seems to have proceeded upon the principle that a province has a constitutional right to adequate compensation for the impairment of its sources of revenue) the adjustments from time to time of the subsidy were made upon the actual basis of fiscal need, whatever may have been the colorable basis set up as a formula for these adjustments. Moreover, the actual subsidies allowed to the provinces which first entered Confederation were based upon fiscal need. This was also true even of the conditional subsidies or grants-in-aid given to the provinces to assist in the performance of a function of government assigned to the province, which it was in the national interest to discharge and which the province, by reason of fiscal need, could not perform without federal assistance.

.If fiscal need is the real basis of subsidy allowance, then the sensible course is to frankly adopt it as such; and if the subsidy be retained as the main device of Dominion-provincial financial relationships, to determine a suitable formula for fiscal need applicable to all of the provinces with their varying circumstances and requirements; and then distribute subsidies upon the basis of that formula.

But since in so doing even the pretence of equality of treatment, which has been maintained through the years, would have to be abandoned, it is conceivable that its abandonment would evoke the hostility of those provinces whose fiscal need was relatively small, if, indeed, they had in relation to the Dominion any fiscal need at all.

Moreover, it would seem that there would be considerable difficulty in determining upon a formula for fiscal need which would be satisfactory to all provinces of Canada whether they received much, little, or nothing according to it. Even after the formula was agreed upon it seems reasonably certain that great difficulty would ensue in applying it. R.A. MacKay, for example, suggests that there would be certain obligations upon the province which sought aid upon the basis of fiscal need to show that its administration was efficient; that its functions were not unduly advanced or more extensive than those of other provinces; and that it was levying a fair burden of taxation.

But who would be the judge as to whether the province had met these obligations? Upon what standard of efficiency of administration and of taxation would the judgment be based? Suppose the province failed to meet any one or more of these standards and yet was in dire need through misfortune or even directly through its own extravagance and mismanagement. Would it nevertheless be helped, or be left to default and thereby inevitably produce an adverse effect upon the credit of its fellow provinces (particularly those in the same geographical or economic area), and of the Dominion. Then, there is a very interesting quotation of the views of the Right Hon. Mr. Bennett, as indicated by the footnote, and the memoranda on the financial relations between the provinces and the Dominion in Appendices to Nova Scotia Royal Commission Provincial Economic Inquiry of 1934 at page 37. Mr. Chairman, I have these quotations here, would you like to have them or shall I quote them?

THE CHAIRMAN: No, leave them.

HON. MR. GARSON; All of these considerations seem to indicate that the suggestion that the subsidy be re-

furbished, modernized and made to serve is one which neither the probabilities of the future nor our experience in the past establishes as a satisfactory solution of our problem, unless perhaps the subsidy were so changed in its characteristics as to cease to be a subsidy as we know it. Most students of Dominion-provincial relations are agreed that the subsidy arrangement has been a most unsatisfactory one in practice.

The government of Manitoba is not opposed to the subsidy in theory, but, upon the basis of past experience, is skeptical as to the possibility of securing the assent of all provinces to a system of federal subsidies actually based on fiscal need and actually adequate to meet that need. Hence, rather than continue the subsidy as the main instrument of federal assistance of provincial finance, we submit that what is more likely to be workable is an arrangement between the Dominion and the provinces which will be more automatic in its workings; which will work reasonably well under all vicissitudes of provincial affairs; which will obviate periodical negotiations between the Dominion and the provinces and arguments as to the formulæ and the application of formulæ; and which we think, given reasonable management of provincial affairs, will enable all provinces of Canada to carry on without difficulty once their present position of financial difficulty has been cured. We therefore shall propose to the Commission the treating of the subsidy in a manner which we shall outline in a later part. We shall also recommend an arrangement which will involve the Dominion government's assuming and paying for a substantially larger share of the responsibility for the new social and other services now demanded of the state. Only by this means can the burden of these expanding services be placed upon a tax base

which is capable now and in the future of supporting it.

We come next, Mr. Chairman, to the point to which you made reference a moment ago as to Dominion leaving the field of direct taxation.

THE CHAIRMAN: The Dominion will not retire from the field of direct taxation.

HON. MR. GARSON: No, as a matter of fact, we agree that they should not. I think I should pass over that item.

THE CHAIRMAN: Yes.

HON. MR. GARSON: I shall now read from the bottom of page 50: The suggestion that the Dominion government should make the provinces a sliding allowance based on estimated disadvantages to them, resulting from national policies, as established by a certain index to be agreed upon, is sound enough in theory, but in practice we submit that all of the difficulties which have been experienced with regard to arriving at the proper subsidy to be paid to the province, would be met with in arriving at the index by which this allowance was to be paid. As in the case of the subsidy, the Manitoba government is not opposed to this proposal in theory; but although willing to co-operate in a consideration of its possibilities, is extremely dubious as to the chances of securing the agreement of all of the provinces to a sliding allowance which would be adequate to meet the needs of the poorer provinces, and to an index which would work satisfactorily.

PROPOSAL TO DISTRIBUTE TO PROVINCES PROCEEDS
OF A NATIONAL TAX TO FINANCE UNEMPLOYMENT
RELIEF

The distribution to the provinces upon a per capita basis of relief population of the proceeds of a special federal tax levied upon the whole nation, earmarked for relief purposes, and sufficient to pay for the entire

cost of relief out of current expenditure, is, in our judgment, the only practicable solution of the problem of financing relief, short of the taking over of the same, both as regards financing and administration, by the Dominion government. If it could be contended that relief could not be administered much more efficiently, cheaply and rationally by the Dominion government than under the present system, we would strongly urge upon this Commission the distribution of this relief tax as above outlined. But for reasons which we shall shortly give, we believe that the administration by the Dominion government of relief and unemployment insurance and of a national employment service is so much to be preferred to the present inefficient and overlapping service, however financed, that the Dominion government should take over the administration as a move thoroughly desirable in itself, quite apart from the fact that by so doing the Dominion government would fulfill the imperative necessity of relieving the Western provinces from the present insupportable burden of relief.

PROPOSAL TO REDUCE PROVINCIAL GOVERNMENT EXPENDITURES

The third and fourth main alternative courses are:

3. Reduction of expenditures:

- (a) for general expenses of government;
- (b) for debt charges;
- (c) by reducing the rate of incurring new debt for relief purposes.

4. By the Dominion government assuming and paying for a substantially larger share of the costs of social services and relief.

PROPOSAL TO REDUCE GENERAL EXPENSES OF GOVERNMENT

Dealing with these proposed reductions in order named, we ask the Commission to note that from what has already been said herein, it will be apparent that any substantial additional savings in the reduction of the ordinary expenditures of the government of Manitoba are not practicable. It is a fact vouched for by the Bank of Canada after examination of Manitoba's affairs and accounts that fairly substantial increases should be made in the ordinary expenditures of government in order to bring governmental services up to a desirable minimum. The needs for such increases in ordinary expenditures have already been stated.

PROPOSAL TO REDUCE DEBT CHARGES

As regards debt charges, it will be equally apparent that in any programme looking to the rehabilitation of Manitoba's finances, the conversion of her public debt at substantially lower interest rates is an indispensable feature. Business men, financiers and taxpayers generally deplore increases in taxation not more than politicians who tend, in specific cases, to be the first victims of the public reaction to such increases. Unhappily, financiers and business men view with an alarm equal to that which an increase in taxation inspires in them, the least deviation from strict observance of debt contracts in general and government bonds in particular. It is apparent from the most superficial examination of the following figures that it is in respect of the items of Public Welfare Charges and Debt Charges, in which substantial increases have taken place, that substantial economies can be effected, looking to a reduction of taxation. The figures there indicate that the general expenses of government in Manitoba in 1881

were \$1.60 per capita; in 1936 it was \$1.66 per capita; whereas, public debt which was nothing at all in 1881, was 53 cents in 1891 and had grown to \$9.60 in 1936. Public welfare which was 11 cents per capita in 1881, 23 cents in 1891 had grown to \$3.71 in 1936, which is exclusive of relief. Relief, as we all know, is capitalized.

THE CHAIRMAN: Have you not covered this very well in your former statement.

HON. MR. GARSON: The figures yes. I was going to give an instance of the working out of the debt on an individual basis.

THE CHAIRMAN: All right.

HON. MR. GARSON: Debt charges, as these figures show, are a heavy item. In 1936 charges on the gross debt absorbed 47.24 per cent of Manitoba's budget. It is banal but true to say that if we do not convert our debt we must continue to pay a disproportionate part of our whole budget for debt charges. Thus to balance our budget and/or reduce taxation we must convert our debt at substantially lower interest rates.

By way of illustration let us look at some Manitoba figures. Manitoba's total net production in 1926 was \$347,894,991.00. Her taxes for the nearest fiscal year ending April 30, 1927, were \$5,342,046.86. Her debt charges for that year were \$4,061,419.00.

Manitoba's total net production in 1933 was \$165,927,693.00. Manitoba's taxes for the nearest fiscal year ending April 30, 1934, were \$ 7,542,199.00

with a resultant loss in taxation
 revenue of \$ 3,944,042.00

THE CHAIRMAN: It is not necessary to go through

all these figures.

HON. MR. GARSON: Well, I will pass them by. They speak for themselves.

THE CHAIRMAN: It is a negative argument leading to the conclusion that the course is not feasible.

HON. MR. GARSON: I should like to read the paragraph at the bottom of page 53, if I may.

THE CHAIRMAN: Yes.

HON. MR. GARSON: We mention these figures to indicate to what absurd conclusions one can be led by the argument that taxes should be reduced, but that debt charges must under no circumstances be reduced. These figures also show how difficult it is to make any headway with Manitoba's financial problem without reducing debt charges; and the extent of the heroic measures which have already been taken by the Manitoba government pending an examination of our case, by means of drastic taxation and equally drastic economies, to uphold the credit of Manitoba and, in so doing, that of Canada. We say "pending an examination of our case" advisedly because it must be abundantly clear that these measures cannot be maintained much longer unless relief in some form now being sought is extended to this province.

PROPOSALS TO REDUCE CHARGES AND
BORROWING FOR SOCIAL SERVICES
AND RELIEF

Items 3 (c) and 4 last above mentioned, relating respectively to the reduction in the rate of incurring new debt for relief purposes and the proposal that a substantially larger share of the costs of certain social services and relief be assumed and paid for by the Dominion, may be considered together.

THE CHAIRMAN: We shall go on with your solution of

the problem tomorrow morning.

(Whereupon the Commission adjourned
at 4.30 until tomorrow morning)

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